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**States, economic globalisation and changing modes of labour regulation  
in the Asia/Pacific Region: A comparative study of New Zealand, Japan  
and Malaysia.**

Satendra Prasad



Thesis submitted towards the partial fulfilment of the requirements of the degree of  
Doctor in Philosophy, Department of Sociology and Centre for Comparative Labour  
Studies, University of Warwick, Coventry, UK. ١٩٩٦

## Abstract

Through a historical and comparative examination of economic restructuring, this thesis has explored the centrality of state regulation of labour in explaining the patterns of accelerated economic internationalisation in New Zealand, Japan and Malaysia. The primary aim of this thesis was to explore the place of labour regulation in explaining the process of accelerated internationalisation that is associated with the term economic globalisation in these three reform-oriented states.

Through a detailed examination of New Zealand, Malaysia and Japan, light was thrown on the variety of ways in which states articulated reform agendas, and mediated domestic and international pressures during periods of reform. The patterns of economic restructuring followed by the three states differed significantly. However, political agencies, rather than policy *per se*, within the reform process were found to be central to explaining the trajectories and variabilities in the patterns of internationalisation. The study found that labour market strategies featured heavily in the restructuring processes, establishing the political context and background to changes in labour market policies and strategies in the three settings.

Contrary to the mainstream globalisation debates, this thesis highlights the central role of the state and politics in the processes of economic restructuring during periods of accelerated internationalisation. These were demonstrated through the variety of ways in which state-market relationships were re-configured. At the same time, the country studies demonstrated that reform-oriented states were themselves transformed during the phase of accelerated internationalisation. The transformations were most vividly highlighted in the internationalised economic sectors and within state institutions. These were the points where the interface between the global and the local were most strongly expressed, helping draw out the nodal nature of reform oriented states.

In spite of the variabilities of the reform, some general observations were noted. These included the fragmenting and dislocating impacts upon organised labour, and emergence of new forms of labour market segmentation, the rise of multiple regimes of labour regulation and a gradual expansion in the area of individual rights. These were important to understanding the ways in which labours' compliance was secured during periods of radical reform.

Through a historical overview, the thesis demonstrated that contestation and negotiation involving a number of agents re-shaped the trajectories of economic policy. But the nature of politics itself appeared to have been transformed as well. What was especially noteworthy was the way in which an economic policy regime was introduced, legitimated and sustained. Through political reforms, this economic policy regime was shielded from distributional pressures and most especially from contestation by labour. This, we have argued was fundamental to explaining accelerated economic internationalisation in these economies in the modern period.

The thesis thus makes a modest contribution to understanding how states and labour regulation underpin the processes through which accelerated economic internationalisation, and the associated reconfiguration of state-market relationships are secured. By recasting the role of the state, and its approach to labour regulation, a sharper picture of the principal levers driving the process of economic globalisation in the contemporary era can be thus obtained.

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### Acronyms

APEC	Asia Pacific Economic Co-operation Forum
CTU	Council of Trade Union
CUEPACS	Congress of Unions of Employees in the Public and Civil
ECA	Employment Contracts Act
EPA	Economic Planning Agency
FDI	Foreign direct investment
GATT	General Agreement on Tariffs and Trade
ICFTU	International Confederation of Free Trade Unions
ILO	International Labour Organisation
IMF	International Monetary Fund
JIL	Japan Institute for Labour
LRA	Labour Relations Act
MITI	Ministry for International Trade and Industry
MNE's	Multinational enterprises
MTUC	Malaysian Trade Union Congress
NIE's	Newly Industrialised Economies
OECD	Organisation for Economic Co-operation and Development
RENGO	Japan Trade Union Federation Services
SOHYO	General Council of Trade Unions of Japan
UMNO	United Malay National Organisation
WTO	World Trade Organisation

## Acknowledgement

This study originates from my concerns as a trade union and political activist dealing with issues of democratisation and union rights in Fiji, following two military coups. The pace with which a new economic orthodoxy acquired hegemony was an especially noteworthy feature of Fiji's politics in 1988 and 1989. In examining the origins of this 'policy fundamentalism', the research expanded its focus to include a much broader part of the Asia/Pacific region. This was driven by a passionate belief that we needed to understand and make visible the variety of ways in which an almost fundamentalist belief in an ideology of growth premised upon the discipline of labour has been shielded from popular criticism and scrutiny.

The analyses that follow would have been impossible without the support of so many people and institutions. Foremost, I am thankful to the University of the South Pacific for sponsoring my doctoral studies through a British ODA training grant for three years.

For the Japan segment of this study the support of Japan Institute for Labour, Professor Shin Yamada of Meiji Gakuin University (Tokyo) and Professor John Benson of Hiroshima City University are gratefully acknowledged. Research in Japan was made possible through the support of ILO/Japan Institute of Labour Network of Asian Labour Studies Institute, a visiting fellowship by the Peace Research Institute (PRIME) at the Meiji Gakuin University and a research grant from the Research Committee of the University of the South Pacific. The support of Professor Yoshikazo Sakamoto, Dr Takao Takahara is also warmly acknowledged. The companionship and support of Japanese scholars in the Toyota Foundation supported research network on Japan/South Pacific relations between 1989 and the present time provided extremely helpful insights into Japanese politics that would have simply not been possible otherwise. An invitation by Waseda University and the United Nations University to the "Culture and Development Conference" also provided an opportunity for follow up interviews. Discussions with Dr Michael Ehrke (Resident Director, Frederick Ebert Stiftung, Tokyo), Dr Nouyoki Kameyama (Research Director, Japan Institute for Labour, Tokyo) and Mitsuo Tanaka (of the International Affairs Bureau, RENGO) were extremely helpful.

The New Zealand section of this research would not have been possible without a visiting lectureship at the Industrial Relations Centre at Victoria University in Wellington in 1996. The support of Professors Kevin Hince and Pat Walsh, Ms Rose Ryan, and other staff at the centre are warmly acknowledged. Staff at the PSA, NZCTU and the New Zealand Business Roundtable were also extremely helpful during the research for which I am deeply grateful.

For the Malaysia section, I am grateful to Dr Peter Wad (Copenhagen Business School, Department of Intercultural Communication and Management), Rajasekran, (General Secretary, Malaysian Trade Union Congress), Siva Subramaniam (Secretary General CUEPACS and NUTP), Dr Chandra Subramaniam (Research Director, Ministry of Human Resource and Development) and Arokia Dass (Union and Political Activist). I am deeply thankful to Muthusamy (Vice President - Kesatuan Pekerja Tenanga) and his family for all their support and warmth during field work in Malaysia. My thanks also to Arokia Dass for his kind hospitality and support.

Professors Peter Gutkind and Richard Hyman (University of Warwick) and Kevin Hince (Victoria University) provided helpful criticisms and advice on the research proposal for which I am very grateful. During this endeavour, I have treasured many companionships. These include that of Professor Peter Gutkind (University of Warwick), Professor Kevin Hince (Victoria University of Wellington) and fellow traveller, Dr Darryn Snell. In Fiji, I especially acknowledge Kisor Chetty, for his support and kindness. I owe very special thanks to my supervisor, Dr Peter Fairbrother.

Mohini Singh and Lillian Thaggard provided secretarial support during different phases of this study. Claire Slatter, Andy Carl and secretariat members of the Citizens' Constitutional Forum (Fiji) shielded me from excessive work pressures associated with constitutional development work that I have been involved with over the past four years. To them, I am deeply thankful.

I owe a very especial tribute to my mother, Mrs Chandra Wati who inspired me throughout and animated my many other interests during these four years. But most of all she gracefully took over so many of my family obligations in what has surely been the most stressful period in both our lives.

This thesis would quite simply not have seen the light of the day without the endurance, love and companionship of my partner Kushma. Along the way, our daughter, Neha was born. An extremely unfair burden in raising her and taking care of Aachal fell upon Kushma. To them, I owe a deep gratitude and at some point in my life, I hope to be able to make up for this. This thesis is dedicated to Kushma and my mother.

S.P.

Islington, London, 1998.

## Chapter One: Introduction and outline of the study

*Globalisation is a heavy word. It drips with doom and helplessness. It is used as a sort of chloroform gag to shut up people who think that a good government could give its citizens a better standard of living. "Don't you realise that we are all globalised now, and living in a post-political world" (Neal Acherson, The Independent, 12 January 1997:12).*

### 1:0 The Problem and Thesis

This thesis problematises economic globalisation and state/market relations within the national experiences of three states variously positioned in the global economy. It introduces politics, power relations and roles played by various agents, especially those that affect labour regulation, to examine the reconfiguration of state/market relations that occurs during periods of accelerated economic internationalisation. It argues that the general process of economic globalisation is often associated with a phase of accelerated internationalisation of national economies that is achieved through a complex and varied reconfiguration of state and market relationships. By understanding how such reconfigurations are obtained and legitimated and how state/market relations are transformed in relation to three national experiences, this thesis advances our understanding of the process of economic globalisation and the place of state regulation of labour within that. The case studies from New Zealand, Malaysia and Japan reflect three contrasting experiences from the vibrant Asia/Pacific region.

The thesis argues that a process of accelerated economic internationalisation affects state/market relations in varied ways in different sites of accumulation and in different sectors within national economies. The term economic globalisation is used in this thesis to refer to a process of accelerated economic internationalisation and the reconfiguration of state and market relationships through which that is achieved. Accelerated economic internationalisation refers to the phenomena of significant increases in the proportion of exports and imports in relation to the overall size of a national economy, as well as a more general opening up of national economies. This is mainly achieved through a dismantling of barriers to international trade. This phenomena is associated with a reconfiguration of state and market relationships. Viewed historically, there are periods in which economic internationalisation and associated reconfiguration occur quite rapidly. In this study, the term accelerated economic internationalisation is used to refer to these distinct periods. While the transformations in state and market relations, and the economic indicators of international trade are well documented,

our understanding of how such reconfigurations are generated and sustained during these specific periods is less clear. This is so because politics has been largely absent in the accounts and explanations of economic globalisation and its associated changes in the arena of economic policy. By reintroducing politics in studying such transformation, the thesis affirms the centrality of state and political processes in determining the extent and forms in which internationalisation presents itself. By placing politics at the heart of this transformation, economic globalisation is shown to be a contested and uneven process.

The thesis argues that the reconfiguration of state-market relations is both part of and determined by the process of economic internationalisation. This process of economic internationalisation is aided and promoted by multilateral agencies, capital markets and a range of other agents. Fundamental economic policy changes, during such periods, are often presented in a manner that appears to be depoliticised. This process helped shield major reforms from opposition. But the reconfiguration of state-market relationships involves a complicated mediation by the state as well. A central dynamic in this mediation, contestation and actual reform is the relationship between state and labour. At times states may appear to be a recipient of change, as well as an instigator. This is evident in the ways in which states have been reconfigured and recomposed. The important point advanced in this study is that the state remains the site or the 'node' for relations at a local, national and international level. The task is to examine the detail and variation in these relations, thereby addressing the substantive concerns associated with economic globalisation and the place of the state and labour in this process.

Much of the globalisation literature presents globalisation largely as an economic process, seemingly devoid of politics and political contestation and immune to interventions by states, labour and other agencies (World Bank, 1995b; World Bank 1996b; OECD, 1995). The comparative experiences overviewed in Chapter Two (Gottfried, 1995; Hawes and Liu, 1993), for example, stress the international influences over shifts in economic policy. Williamson (ed.), 1994) and Boyer and Drache (eds. 1996) examine the political economy of economic policy shifts. Such studies highlight the growing importance of the field, although in very general terms. By locating economic policy shifts in relation to concrete national contexts, this study grounds its analyses of a seemingly global phenomenon in the very specific experience of states and highlights the specific role of agencies within them.

To demonstrate the primacy of political contestation, the study focussed its attention



upon labour regulation as it helped throw light on some of the ways in which different constellations of power influenced trajectories of economic restructuring and patterns of internationalisation. A noteworthy absence in the literature on globalisation has been the place of labour and the politics of labour market reforms (Hirst and Thompson, 1996a; Boyer and Drache, eds. 1996; Schor and You, eds. 1995). This absence was partly due to the fact that many of these studies were grounded in narrow disciplinary boundaries. To overcome such restrictions, this study draws on a range of traditions (Wallerstein, et.al., 1996; Wallerstein, 1991). Moreover, these writers do not see labour as being an important part of the overall mechanisms through which economic internationalisation is obtained. This thesis critiques such explanations of economic globalisation.

By demonstrating the contested nature of economic globalisation, the thesis challenges conventional conceptualisations of economic globalisation that present capital markets, multinational enterprises and multilateral finance agencies as the principal drivers of economic internationalisation in the modern era. In examining the general phenomenon of economic globalisation the modern capitalist state was presented as a paradox. Agencies such as multinational enterprises and capital markets appeared to limit the scope of state interventions and regulation (Offe, 1996; Wallerstein, 1996; Rueschemeyer and Evans, 1985). However, the real experiences of nations appeared to demonstrate the continued vitality of states in affecting economic and social outcomes. The predominant thrust of economic internationalisation was a displacement of political exigencies and a blurring of the role of agencies such as labour collectivities in economic governance. By recasting the economic globalisation debate in terms of the recomposition of state/market relations and the influences of agencies such as organised labour, global finance institutions and bureaucratic elites in this recomposition, a purchase is obtained on how the state has been transformed in concrete situations and during specific periods.

Specific national experiences help throw an original light on how labour regulation features in the mechanisms of market interventions and co-ordination deployed by three different states. The totality of mechanisms deployed to obtain specific labour market outcomes during the specific periods examined in this study is captured by the term a regime of labour regulation. A regime of labour regulation, as used in this study includes microeconomic labour market policies, labour law and industrial relations practice for the organised and formal employment. It also includes less conspicuous mechanisms that have the effect of regulating labour. These

mechanisms are especially notable in small and medium scale enterprises and informal sectors of an economy. Additionally, this term also captures the emergence of new instruments and agencies that do not appear to be directly concerned with labour regulation so directly, but which have an indirect effect on the regulation and often the disciplining of fragments of labour.

The analysis that is presented attempts to understand the particular relationships between regimes of labour regulation and the processes of accelerated economic internationalisation. It throws light on the intrinsic, contingent and co-determinant relationships between these two variables in specific contexts. These relationships were affected and influenced by a range of agents. The nature of these agents and the ways in which they influence these relationships thus needed closer examination. The problem that the thesis dealt with was to draw out the general and the particular forms of these relationships and assess their significance.

To assess this, the thesis examines how the three reform oriented states manoeuvre international and domestic factors through their choice of economic policy and the level of intervention (Schor and You, eds., 1995). Both the arena of economic policy and the degree and nature of state intervention are political rather than strategic selections (Clarke, 1988: 127-128). The choices of one policy over another are outcomes of contests and they signal state responses to specific contests. In spite of the many variations that this takes, such manoeuvring depends upon the regulation and co-optation of labour. Moreover, compromises represented in policy transformations have consequences for labour organisations and politics. Economic policies even where they do not appear to relate to labour directly are not neutral to labour market associations. By studying how state policies that aid internationalisation impact upon labour market associations and are dependent upon particular configuration of labour associations, underlying features of economic globalisation can be illuminated. The central underlying feature of the broad process of economic globalisation was economic internationalisation. One of the least well understood aspects of economic globalisation was its impact upon labour (Tilly, 1996). The literature on economic globalisation often treats 'labour' in an unproblematic manner. It is largely treated as a simple factor of production that is merely impacted upon by the process of economic globalisation. It pays little attention to its role as an agency that is capable of influencing patterns of internationalisation. By advancing our understanding of economic internationalisation from this standpoint, the conventional approaches to the study of the process of economic globalisation are shown to be glaringly problematic.

Economic globalisation is expressed unequally across national sites of accumulation and

has fragmentary impacts within nation states. This is so because states structure the terrain upon which capital accumulation occurs in a manner that is both politicised and that generates contestation in turn. By interpreting class, union and other configurations through which collective interests are articulated and asserted, the politicised nature of state's structuration, and the diverse expressions of contestation can be understood. Because economic globalisation is interpreted in terms of the outcomes of political contestation, the role of agencies becomes more important. Significantly, such agencies not only include labour, but state agencies as well.

A comparative approach helps establish better the relative importance of one or any set of agencies in shaping the contours of economic globalisation in concrete national situations. This approach also helps establish the more general trends that relate to agencies during periods of accelerated internationalisation.

### **1:1 The Approach**

This study is largely of an exploratory nature. By reconceptualising state/market configurations through an emphasis on the politics of such configurations an arena for research is staked. Through a combination of historical and comparative methodologies some key features of both the particular and the universal are understood. Through a combination of analytical tools and drawing on diverse literature, this study aims to tease out the underlying generative mechanisms of economic restructuring in a context of accelerated internationalisation in three specific sites of accumulation as well as develop some indicators for more universal tendencies associated with economic globalisation. In so doing, the study provides pointers along which a re-theorisation of the process of economic globalisation as well as the state could proceed.

This methodological approach is developed through an elaboration of historical-comparative methods derived from Skocpol, (1979); Skocpol, ed., (1984), Rueschemeyer, D. (et.al., 1992) and Tilly, (1984). Comparative approaches are used to contrast cases in which phenomenon to be explained and the hypothesised causes 'are present in the other (negative) cases in which the phenomenon and the causes are both absent', although they are as similar as possible to the 'positive cases in other respects' (Skocpol, 1994:79). Comparative approaches also help researchers formulate "useful and new questions; serve as a rough negative check on accepted explanations and lead to new generalisations" (Moore, 1966: xiii). The historical comparative approach is further supported by analytical-inductive (Sayer, 1995; Rueschemeyer, et.al. 1992; 36) and critical realist insights (Bhaskar, 1989 and 1994). The combination of

methodological tools deployed helps overcome the limitations noted in the literature on economic globalisation; the state-centric point of departure being an important one of them (Wallerstein, et.al. 1996). Significantly, the rejection of state-centric approaches, in favour of a dynamic approach that combines an emphasis upon a range of state agencies and other dynamic agencies both within national economies and in the global arena aids a resolution of the theoretical questions raised by this study.

Careful consideration was given to the selection of national experiences from New Zealand, Japan and Malaysia. These are countries with distinct histories that were subject to varying international pressures and contrasting internal dynamics. These selections provide contrasting approaches to internationalisation that reflect the key contemporary tendencies from the diverse Asia/Pacific region as well as more broadly. Moreover, all three have been sites of sustained restructuring over the past two decades. Their broader comparability is derived from the fact that they are all committed to closer integration into the international economy. In all three societies, central state institutions have played a prominent and persistent role in reshaping economic policies, making comparisons more meaningful. However, these agencies interpreted the objectives of economic integration quite differently. Moreover, different interpretations of policy approaches also reflected the influence of a range of agencies upon policy formulation, and implementation. One crucial feature that emerged from the economic policy framework in each of the countries was the strong association between economic developmental policies and industrial relations strategies. This association provided a useful lever for opening up questions and issues relating to the politics of economic restructuring and transformations.

Moreover, policy choices were influenced by the varying developmental experiences. A shift to an almost ideological reliance upon neo-classical economics to deliver social goals through market-determined growth from a Keynesian social democratic model was dramatically illustrated in the case of New Zealand. The subversion of economic development strategies to the attainment of regional, ethnic and other goals as determined by the state was evident in the Malaysian case. In contrast to these, Japan illustrated the dilemmas of a phased internationalisation based on a mix of protectionist and integrationist policies. The choice of economic development strategies in each of the countries were codes for understanding political contests between capital markets, international capital, national capital and labour among others. Through a critical re-interpretation, some of the generic features of the contrasting approaches to labour regulation could be understood. These contrasts ranged from the state-led decentralised

model in Japan, on the one extreme, to a liberalised market dependent model in New Zealand, on the other. In each of the case studies labour regulation and industrial relations has been presented as central to the goals of economic globalisation and hence growth. These selections were also influenced by the fact that changes in economic development strategies had immediate and contrasting impacts on industrial relations and labour policy in each of the countries. The case studies are thus chosen because they help illuminate the themes. Moreover, they are all located in the broader Asia/Pacific region - the region that has given economic globalisation its most dynamic features.

These case studies elaborated three distinct approaches to economic restructuring and globalisation. They also illustrated marked contrasts in the role of the state in restructuring processes, and wide differences in political contestation to the restructuring agenda. In spite of these differences and the seemingly contrasting economic policy frameworks that underwrote the restructuring processes, many labour market and macroeconomic outcomes were quite similar. This forms a useful starting point for tracing the underlying generative mechanisms of changes that are studied. At the same time, an analysis of these outcomes helped link the very particular national experiences studied here with the more general outcomes associated with economic globalisation.

### **1:2 Outline and Organisation of the Study**

The structure and organisation of the thesis and the key arguments developed in each chapter are summarised below. Chapter Two also outlines the research problems and locates them within the wider interdisciplinary literature. It also examines how disciplinary boundaries have contributed to a fragmentation of our understanding of the process of economic globalisation. By recasting the debate on economic globalisation from historical and comparative vantage points, the validity of national experiences are affirmed. It argues that market/state structures and relations are connected to and determined by factors/agencies associated with economic globalisation. However, to understand these relations, the study needed to factor politics and power relations, thereby bringing the state under much closer scrutiny. Accelerated economic internationalisation had created diverse challenges for states in the global system. They have responded to these largely through economic policy re-orientation; although the form that such re-orientation took was quite varied. Chapter Two outlines the theoretical parameters of the study, defines the economic globalisation problematic, stakes its key propositions and

examines aspects that relate to the transformation of states (Tilly, 1996; Sassen, 1995), and through that, outlines features that relate to the recomposition of state/market relations.

It is argued, in Chapter Three that the study of the close relationship between market-state restructuring and internationalisation of economies requires a historical and comparative perspective. Such a perspective provides a vantage point from which the changing strategies of economic development and changes within state institutions across different countries can be assessed. This perspective focused on the state as a unit of analysis, both as an arena of contestation and the interface between the global and the national. Moreover, the undervaluation of the state so characteristic of the dominant neo-classical developmental discourse is redressed through this approach.<sup>1</sup> At the same time, the selected cases demonstrate that the premium on agencies required situational qualification. For example, the mutually contradictory nature of state agencies even when there is a perception of a high degree of co-ordination was illustrated in the case of Japan. The case studies also illustrated how state institutions themselves were transformed during periods of accelerated economic internationalisation. One key transition that was observed was a realignment of institutional responsibilities for economic policy formulation.<sup>2</sup>

The next three chapters present the case studies, highlighting the common framework for historical comparison and detailing the contemporary events for comparative analysis and scrutiny. Chapter Three overviews the case of radical liberalisation in New Zealand. It sketches the historical origins and performance of its showcase welfare state and its social democratic model of corporatism. It further discusses the acute impacts of changing international environment on New Zealand's economy, triggering two distinct periods of restructuring and different sets of challenges for its labour and corporatist institutions. The Keynesian - demand management approach by the National Party throughout the 1970s and the monetarist reforms initiated by the Labour Government in 1984 are contrasted. This transition in economic policy orientation reflected deep transformations in its economic structures and changing form of economic management.

In contrast, in Malaysia there was a combination of state interventions and co-ordinated development strategies. This process involved a state driven ethnic structuring of the political and civil spheres, overt state sponsorship of a Malay bourgeoisie, and the disciplining of autonomous labour movements. Without the restraints of democratic corporatism, and armed with authoritarian powers, the state intervened in the process of economic restructuring,

amplifying the limited appeal of the neo-liberal agenda. It illustrated that where states had the political capacity, they could plan and co-ordinate their economic growth, distort prices and factor markets and yet achieve high levels of growth. The Malaysian case draws attention to the limits of international capital markets. By emphasising the importance of domestic agencies in the process of economic globalisation, this case powerfully re-asserts the importance of the state.

A more specific focus on the position and responses of labour in Malaysia's contemporary economic development illustrates another form that the depoliticisation of markets took. Depoliticisation specifically referred to clinical manner in which fundamentally political nature of reforms were presented and legitimated purely with reference to concepts drawn from economics. State/market relations were re-constituted in a manner that excluded labour, incorporated ethnic corporate pressures, and persistently rewarded compliance in the name of achieving national goals, such as international competitiveness.

Japan provides another contrast in the form of a gradual and more persistently contested reconfiguration of state/market relations and of labour regulation. While global contingencies help explain modes of labour regulation in the post-war period, intra-capital contestation was an important aspect of this process. The rapid economic growth has been explained with reference to the successes of its policies designed to crush radical labour in the 1950s, the rise of the state supported industrial elite, high levels of control and regulation through state agencies, and a unique system of enterprise unionism. The marked continuities and indeed expansion of the scope for corporatism in the 1990s appeared to contradict some of the basic assumptions of the neo-liberal economic policy paradigm. Japan's rapid internationalisation was dependent upon quite unique labour market strategies.

The three case studies are analysed in the two chapters that follow. These analyses illustrate the flawed presentations of the relationships between economic restructuring and fiscal crisis; a central pillar in the conventional globalisation debate. They show that while restructuring reflects international obligations, national political variables closely prescribe the implementation and possibilities of neo-liberalist types of economic reforms. Moreover, the comparisons highlight economic globalisation as a dialectical process subject to contestation. While the sites of contestation varied, the state itself is a major node in this process. Because economic restructuring was shown to be a political as much as an economic process, both the validity of conventional accounts of economic development (World Bank, 1996b and 1996c) and of the international political economy and the post-fordist and regulationist schools (Ruigrok and Tulder, 1995; Schor and You, 1995) were shown to be problematic. Developmental agencies and state institutions had variously shaped an economic policy framework as a depoliticised set of proposals. This to some extent relied on the presentation of an economic ideology as economic science and the articulation of national goals on the basis of that ideology. The principal agent upon whom this policy framework was directed and upon which it impacted adversely was labour. Labour market changes appeared to be a key feature of the reform agendas when large scale policy shifts occurred. Where organised labour had a more developed political project autonomous from the state, its capacity to contest this reform was sharper but this did not always translate into gains for labour.

Possibly, economic globalisation had shifted the terrain upon which labour and state conflicts were structured. The depoliticisation of economic policy was also shown to be a process, that involved not only the varying degrees of success based on the strategies deployed by its principal proponents, but also triggered conflicts within state institutions. These conflicts had variable impacts upon state/labour relations as well. Finally, the analyses sought to understand how state/markets relations were transformed and the extent to which labour featured as an agent in this. Labour's compliance, resistance and contest were sectorally uneven in each of the case studies. Moreover, its character as an agency underwent substantial transformation in each of the case studies, although they were uneven.

The globalisation debate assumed that capital reconstituted itself via global financial markets, which exerted its influence through exchange rates, inward investment rewards and other devices. But these were untenable as the primary reasons for the internationalisation in the three economies. Accounts that simplistically emphasise global capital as a homogenous agent



and market expanding force appeared enormously problematic. Like labour, capital was not an undifferentiated agent. This needed to be problematised.

Overall, restructuring was expressed differently and its contradictory consequences and impacts were shown to be important. While the state remained an important economic stake holder in Malaysia; this was much less so in New Zealand and Japan. Trying to connect these outcomes simply to economic policies popularised by multilateral agencies was unhelpful in advancing our understanding of economic globalisation. Only in New Zealand was its association with the neo-liberal reform agenda clear, even though its place in any systematic package of reform was unclear. So how are we to explain the uneven and differentiating outcomes of economic globalisation?

The complicated relationships between state and labour that aided our understanding of diverse patterns of restructuring that the three economies experienced. These experiences generated a range of impacts and in which the states themselves emerged transformed both as an agent of change and a site of accumulation in the context of increasingly integrated markets.

(Moreover) it is clear that defining the nation-state and the global economy, as mutually exclusive operations is, ... highly problematic. The strategic spaces where many global processes take place are often national; the mechanisms through which the new legal forms necessary for globalisation are implemented are often part of state institutions; the infrastructure that makes possible the hypermobility of capital at the global scale is situated in various national territories. The condition of the nation-state cannot be reduced to one of declining significance. The shrinking capacity of the state to regulate many of its industries cannot be explained simply by the fact that firms now operate in a global rather than a national economy. The state itself has been a key agent in the implementation of the global processes, and it has emerged quite altered by this participation (Sassen, 1995:2).

This study suggests pointers for re-theorising the state in the context of economic globalisation.

Overall, this study established significant pointers for theorising the labour and economic globalisation problematic. Labour policy, regulation and markets were significant contingent variables in both democratic, open national economies and in less open and less democratic environments. The primary contribution of this thesis would be its situation of micro-economic developments in national economies in their much broader global setting by using labour as a key variable. In that manner economic policy and developmental changes can be interpreted as situationally specific outcomes of global and national matrixes of power. This approach has implications for the growing field of comparative industrial/employment relations (Kochan, 1996; Hyman and Ferner, eds. 1994) and enables more meaningful interpretations of changes occurring in specific formations.

Moreover, the comparative approach developed a line of inquiry that transcended the developed/developing country distinction evident in such debates.<sup>3</sup> The recomposition of market/state relations creates new regulatory processes that compensate for the otherwise disorganising impacts of economic globalisation (Offe, 1996). But how is it that markets induce the disciplining of labour, for example? How do markets induce labour's compliance to the reform and globalisation agenda? For these standpoints, the marginality of labour in the economic globalisation debates was shown to be severely problematic. While the momentum of global restructuring, increased capital mobility and the impacts of freer capital markets are undeniably the strong features of the current phase of economic internationalisation, it is also true that labour's political projects remain potent. The thesis concludes by providing some pointers for understanding the prospects and constraints confronted by labour as a consequence of the new challenges induced by economic globalisation.

## Chapter One: Endnotes

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1. In a similar manner the state is also undervalued in the international political economy approaches. Mittelman (1996:3) for example, references causality in economic globalisation in relation to spatial reorganisation of production, integration of financial markets and changing investment strategies of multinational enterprises. The fact that each of these factors is clearly affected by policy choices made by individual states is viewed as having marginal importance.
2. Two sets of arguments are presented here. First, is the growing autonomy of the treasury (or comparable institutions) from the legislature. Second, is the emphasis on locating how this seemingly minor transition is attained. Sassen (1995:23) notes with respect to Mexico that 'a shift in responsibility from its State Department to Treasury signaled the extent to which the state itself has been transformed by its participation in the implementation of globalization and by the pressures of globalization'. Bonefeld, Brown and Burnham (1995) develop this argument with respect to Britain. Much of the literature on New Zealand, Malaysia and Japan has presented this transition as being of secondary importance. This study critiques such a view.
3. For example, Clark and Sinclair (1993) have studied the comparable tendencies such as efficiency gains from privatisation experiences in a number of countries including the UK, Malaysia, Tanzania and New Zealand. This debate is equally relevant in these diverse economic formations.

## **Chapter Two: Conceptualising the study of states, economic globalisation and labour regulation in cross-national settings**

### **2:0 Introduction**

Economic globalisation is a process that generally involves the internationalisation of national economies obtained through a reconfiguration of state and market relationships. The pace of internationalisation and the scope of reconfiguration varies between states and is often differentiated by economic sectors within national economies. Over the past few decades, such transformations have become more visible because of the accelerated internationalisation of many national economies. By examining key transformations during periods of accelerated internationalisation, this study outlines the changing character of state institutions, drawing out some of the structural as well as more salient features of these changes. This examination in turn throws light on some key levers that appear to drive the general process of economic globalisation. This study will demonstrate that transformations in national economies during periods of accelerated economic internationalisation were associated with changes in strategies of labour regulation. In specific cases and under certain conditions, these relationships presented themselves more sharply. Economic restructuring that was associated with globalisation had a variety of implications for regimes labour regulation, but these inevitably depended upon political choices of specific strategies. Thus the place of politics in the choice of labour market strategies needed to be examined.

Theoretically, the thesis is concerned with understanding the problem of differentiation in state regulation of labour across national settings during different phases of economic internationalisation. It attempts to develop explanations for the diverse impacts of the differential strategies of labour regulation in cross-national settings. These problems are studied through a historical and comparative examination of differentiation and homogenisation that is associated with economic globalisation through detailed case studies of three national experiences.

This chapter is laid out in the following manner. It first sets the background to the study of economic globalisation. In the sections that follow, I show why state and labour are important for an understanding of the impacts of economic globalisation. This is followed by a review of the literature on economic globalisation and an assessment of the position of state and labour regulation during this process. This lays the conceptual framework for developing the methodology for this study.

## **2:1 Background: Restructuring between 1970s and 1990s**

The period 1970 to the mid-1990s has been one of profound economic restructuring globally. This restructuring was heavily focussed on regimes of labour regulation, the functioning of state institutions, the legal environment for trade, and on approaches to economic and enterprise management. Such changes are popularly associated with the process of economic globalisation and the associated rise of a neoliberal economic policy orthodoxy. This study situates the problem of economic reform within the broader economic globalisation literature.

During this period, industrial relations researchers have sought to explain changes in economic policy environment that affected labour regulation and state institutions in terms of interactions between selected sets of national particularities (Hyman and Ferner ed., 1994; Bagnioni and Crouch, 1991; Frenkel and Harrod, eds. 1995). Such studies variously emphasise work re-organisation, competitiveness, shifts in political environment, changes in employer strategies, and other similar variables. But changes in these areas have not always been unidirectional. Between, 1970 and 1995, we have also witnessed sharp breaks in continuities that marked labour/state relations in a number of countries. However, in many instances long established industrial relations processes were overhauled as a consequence of shifts in economic policy. In many countries, trade unions appeared to decline in importance and labour market institutions were generally devalued. These transformations gave rise instead to new forms of contestation in increasingly globalised national economies. These seemingly contradictory outcomes exposed the limits of the conventional industrial relations approaches. Many economies appear to be experiencing the increasing marginality of organised labour and a corresponding decline in the importance of economic regulation through labour market mechanisms (ILO, 1995b; World Bank, 1996b). At the same time, there has been an intensification of ethnic, gender, region, age and similar pressures within national labour markets, affecting in turn electoral politics and state policies. Such diverse developments have gone against the grain of theoretical approaches that stressed the homogenising outcomes of restructuring and economic globalisation.

However, the general process of economic globalisation has engendered highly differentiated regulatory frameworks. Such differentiation are inadequately problematised by the international division of labour (Boyd, Cohen and Gutkind, 1987) and the world systems schools (Wallerstein, 1992). These changes appear to affect the very character of the capitalist state (Kothari, 1995; Bienefeld, 1994; Piccioto, 1991; Bonefeld and Holloway, 1991). Both the state and its role in the process of economic reform give a purchase on the complexities of economic globalisation in the contemporary period.

But the study of states' has become increasingly complicated by the variable consequences of economic reform. Such consequences derive from privatisation, commercialisation, deregulation and liberalisation. A differentiated pattern of transformation of state institutions that has resulted makes cross-national studies inherently complicated as well. Economic liberalisation appears to reduce the scope for direct interventions on part of the state and expand the role of civil society and non-state market agents (Kothari, 1995). Moreover, the restructuring process was often associated with an intensification of the struggle for control of state institutions, resulting in new social and class alliances (Waterman, 1996). These often saw the crystallisation of new interest groups that affected state/market relations. Moreover, some of these operated across states and economies. The transnationalisation of a bureaucratic class responsible for economic policy formation is one such example (Sklair, 1995). Such new agents have helped to bring under sharper scrutiny the diversity of localised struggles that are associated with accelerated internationalisation of national economies. It is clear that the re-organisation of the global system of production compels us to develop new theoretical tools to understand the complex consequences of economic globalisation, explain its disintegrating and differentiating outcomes and explain the influence of new agents at the same time.

The uneven consequences of economic globalisation also complicate the theoretical challenges raised in this study. In some regions and economies, the process of globalisation has been associated with substantial expansion in employment; a narrowing of productivity gaps and a harmonisation of product markets (Lee, 1996). Invariably, these outcomes have enhanced the power of multinational enterprises and international capital more generally. Moreover, growth in some sectors of the newly industrialised states have not come simply through the mobilisation of low-wage labour intensive industries, but often through developments in high-wage, capital intensive sectors. These developments challenge some of the key propositions within development theory.<sup>1</sup> At the same time globalisation is associated with increased marginalisation of many economies and a widening of disparities within national economies. In this confusing matrix, state responses are articulated in relation to complicated sets of external and domestic exigencies. The question of the general and the specific in relation to state responses to economic globalisation is thus inherently problematic.

Moreover, the processes through which economic policies were formulated by states have also become complicated. Economic policy making has become highly depoliticised phenomenon in the 1990s - characterised in part by the diverse ways in which policy is conditioned by capital markets for example (Jomo eds., 1999). This

coincides with the appearance of a displacement of the role of governments in economic policy formulation (Burnham, 1996, Prasad, 1998). The depoliticisation of economic policy is illustrated through transformations in the legal and political regimes of labour regulation as well. This depoliticisation is related to the increasingly technocratic presentation of economic policy discourses. This is associated with the increasing dominance of labour market policy discourses by labour economists, a centralisation of the responsibility for economic policy formation in a few premier agencies of the state, and the rise of monetarism and the growing autonomy of treasuries and reserve banks. From the literature, this development was presented as being highly specific to those economies undergoing radical neoliberal reforms (Burnham, 1996). We thus needed to establish, firstly the variances in the experiences of depoliticisation. Based on this, observations on its general and specific forms, and their relationships to the general process of economic globalisation could be advanced.

These developments have been largely ignored by comparative industrial relations researchers. While comparative industrial relations scholars (Baglioni and Crouch, 1991) have mainly read-off changes in labour markets with reference to the role of actors in national contexts, Hyman has broadened its remit. He noted that it is fallacious to exaggerate the autonomy of the processes of institutional mediation of the capital-labour antagonism. In an epoch of crisis the interconnections between the various levels and elements of the social formation (national and international capitals and their various fractions; state and civil society; material and ideological relations), whose superficial independence once encouraged attempts to develop a self-contained theory of the 'industrial relations system' are now increasingly transparent (Hyman, 1989: 138).

Sholte (1997) and Hobsbawn (1996) have situated industrial relations within the broader matrix of the international economy and its impacts upon national labour markets. These writers provide useful pointers for grounding the study of state and labour regulation with reference to economic globalisation. While their studies are helpful, it does need to theoretically connect itself to the broader field of development theory. To illustrate this argument, one could examine the reforms in the UK in the 1980s. "Thatcherism" clearly represented a macroeconomic (and ideological) project to restructure British economy in response to a crisis. In this, the restructuring of industrial relations emerged as a key feature of a wider developmental project, rather than merely labour market policy (Overbeek, 1990). Industrial relations restructuring have been generally conceptualised in terms of their relations with economic policy (Baglioni and Crouch, 1991). This has narrowly focussed the analysis of economic reform in terms of the relations between state

institutions and their approach to economic policy. As a result, the importance of the increasingly internationalised environment in which state institutions operate and policies are formulated have been less well understood. This study breaks away from such approaches by locating the problem of reform in its broader setting at the outset.

Several writers attribute developments such as labour market deregulation to the homogenising effects of globalisation; emphasising the ways in which capital deals with crisis and accumulation on the global scale (Holloway, 1994 and 1995), while others emphasise the continuities over a larger historical periods (Arrighi, 1994; Tilly, 1992).<sup>2</sup> This thesis attempts to connect these historical approaches to the changing structure of state/labour relations over a relatively shorter time frame during which accelerated economic internationalisation occurs in specific national settings.

Economic restructuring in the present period has been studied from a variety of theoretical standpoints. Marxist writers have explained the trajectories of contemporary change with reference to class and modes of regulation in specific sites of accumulation. Carter (1995) notes how variables such as the changing forms of management and the transformation of the labour process have resulted from restructuring. Waterman (1996) notes how agencies such as the World Bank, and international civil society organisations have affected economic reforms (Waterman, 1996).<sup>3</sup> Neoclassical approaches have emphasised structural constraints within national economies (such as labour market rigidities) as the principal levers of economic restructuring. Strategies of political domination have been less well studied by these writers. Strategies of political domination call attention to the fact that categories such as labour, employers, and the state are internally differentiated. Inadequate attention has been given to this. This flaw is best illustrated with reference to labour economics, which has contributed most to the neo-liberal labour market environment popularised by institutions such as the World Bank and the OECD. This discipline has treated both labour and capital as homogenous agents.<sup>4</sup>

In sociology, the international division of labour stream aptly captures the features of the theoretical sciences outside of mainstream economics. (Boyd et. al, 1987: 23)

question the historic starting points in the theorisation of international labour. We cannot any longer be content with a disembodied, politically inert notion of industrial relations, or one that erects the workplace bargain as the centre of the problem. Not only are the patterns of industrial protest and bargaining empirically more diverse than any of the models proposed by industrial relations specialists, such an approach simply avoids asking the salient questions. What is the shape and character of the working class in different areas? Where do its parameters begin and end? ... What is the relationship between different segments of the working class? ... Can they begin to regroup internationally in response to the pressures of international capitalism?



While these international division of labour specialists recognise the internationalised origins of new challenges for the working class, they still fall short of theorising these developments. Clearly labour is affected by a qualitative change in the character of global capitalism. But why this is so is not well understood. This study grapples with this paradox.

Some explanations for major changes in the area of labour regulation emphasise shifts in the parliamentary arena and their impacts upon interest group coalitions (Jomo and Todd, 1994; Kelsey, 1995). The rise of global institutions and the promotion of a coherent economic agenda through them have transformed our understanding of interest group politics. This development exemplifies that some changes occurring across nation states do not lend themselves to clear-cut explanations in terms of either domestic exigencies or international pressures.

Hyman and Ferner have posed similar difficulties with respect to European context. They are sensitised to underlying motions such as adaptations in 'national industrial orders', changing structure of industry ownership, shifts in political power to the right, among others – in their totality constituting a regime of regulation (Hyman and Ferner ed., 1994). However, they give a marginal emphasis to the broader global dynamics that influence convulsions in national economies periodically and that lead to restructuring of industrial and economic policy frameworks.

But trends associated with economic globalisation such as the accelerated economic internationalisation are not always unidirectional. Trends such as the demise of corporatism, legislative efforts at decollectivisation, and the shift of industrial regulation away from specialised collective interest regulation to civil regulation do not apply equally to even among the core members of the European Union where there is an increased scope for the harmonisation in the regulatory environment. Moreover, such tendencies also affect capital and industry. Economic policy regimes committed to sustaining high levels of growth appear to lose their momentum over time. Such policy regimes often transform relationships between states and collective interest groups including employer groups. In the reformulation of collective relations, a host of new agents evolve. Some of these new agents exert their influence at the global, rather than national levels. But some of the shifts in organised relationships could be merely cyclical, reflecting shifts in political opinion for example. Others may be of more transformative nature. In dealing with historical transformations in regimes of labour regulation we are cautious to see that cycles are not interpreted as real transformations (Runciman, 1994).

The limitations noted above outline some of the theoretical concerns of this study. By examining restructuring between 1970 and 1995 and using comparative

foci, we may be able to get a better picture of the large-scale transformations being studied, thus providing a better understanding of the changing nature of the state itself. It is through state institutions that labour market strategies are operationalised. But often the state is itself transformed as a result of changes in economic policy frameworks. By re-looking at labour, labour market strategies and labour's politics, this study attempts to resolve some of these paradoxes and redress a glaring flaw in the literature on economic globalisation.

## **2:2 Conceptualising economic globalisation**

The globalisation debate transcends disciplinary boundaries such as international political economy (IPE) and international relations. This thesis draws from a number of disciplines – an approach that is endorsed by Mouzelis who argues that only a painstaking process of theoretical labour that aims at building bridges between the various specialisations can overcome compartmentalisation. Such a strategy does not abolish social science boundaries: it simply aims at transforming them from impregnable bulwarks to transmission belts facilitating interdisciplinary research ... The real issue is (thus) between compartmentalisation and open-ended, non-compartmentalised, 'dialogical' differentiation (Mouzelis, 1995:54-55).

Globalisation is a term is used variously in different popular, theoretical and policy related discourses. Reflecting the populist origins of the term Chesnais (1993) noted

journalists and politicians (and internationalists in the international environmental, labour and developmental fields) largely coined a term globalisation. It has been thrust in the academic community. Some economists have rejected it, characterising it simply as a catchword and others have adopted it, but only using it to characterise certain types of corporate strategy. Others have attempted to give the term scientific meaning by relating it to certain objective processes underway in the world economy ... We would argue that globalisation and all its consequences are facts (Chesnais, 1993: 12).

Economic globalisation can thus be seen as the form taken today by international production in which an increasing fraction of value and wealth is produced and distributed worldwide through a system of inter-linking private networks. Giddens similarly argues that the origins of globalisation were primarily political rather than economic. These included the collapse of Communism which left a single world market and technological changes (quoted in The Guardian, 25/9/96: 13). This process is associated with an intensification of interconnectedness, and a decentralisation of control and regulation. This process was also creating a global class system with a divide between a rich and cosmopolitan class, and a widening

class of excluded (Sklair, 1995). Economic globalisation concerns the loss of many of the attributes of economic and political sovereignty suffered by an increasing number of countries even within OECD. These mainly concern loss of influence over economic policy matters. (Chesnais, 1993: 13). This contrasts with the view of Humbert (1993:3) who observes that 'globalisation is the name given for a lack of a theoretical concept matching more closely observed phenomena'. Reflecting the more specific theme of internationalisation of capital, Harris (1993: 78) referred to 'liberation of capital from the state' as the material form of globalisation. Likewise, the OECD (1992) defines the concept as a reference to the 'growing presence of foreign firms in national economies', and the 'integration of economies to an unprecedented extent'. Internationalisation of capital and decline of the state are twin processes that are commonly associated with the globalisation process (Cox, 1992; Bienefeld, 1994; Radice, 1999). Generally, all these writers point towards the fact that the primary expressions of this process of change are economic – thus the term 'economic globalisation'. Secondly, they all agree that economic changes associated with globalisation also have political implications, expressed through the variety of ways in which state-market relationships are reconfigured.

Two points arising from this are developed. The first, relates to the applied social sciences and policy orientated approaches that emphasise concrete strategies and changes within states and regions. Humbert (1993) notes that globalisation 'is a phenomenon which emerges within the bloc of the leading industrialised countries'. He notes that the 'architecture within the bloc of leading countries and the boundaries of this bloc has changed'. He further notes that the route from internationalisation to globalisation is marked by shrinking of separateness and that 'a kind of global networking appears to be organising industry at the world level' (Humbert, 1993:4-6). These views generally also reflect the institutional conceptualisations of the OECD (1995) and the World Bank (1996b). This networked system is thus presented as an industrial system driven at world level by global competition between firms and nations. Both public institutions and private networks have built up industry as a global system, and this system is shaping the future of so-called international trade and world territorial distribution of industrial production (Humbert, 1993: 9). The second approach is associated with writers who stress continuities in the process of historical evolution over a much longer period of time (Tilly, 1992). To them, globalisation was underwritten by the military might of hegemonic blocs and a 'deepening' rather than a qualitative change in the global economic structure (Broad, 1995:21; Cox 1992). This deepening is reflected through increased trade between nations, a freer flow of capital in the international economy, the rise of MNE's and transformations of the state that reflect changes in the global economy (Scholte, 1997;

Evans, 1997). These processes have especially intensified after the end of second war – leading to the accelerated internationalisation of national economies. The term economic globalisation is thus used to capture changes during this phase of accelerated internationalisation in the post-war period generally, but after the 1970s more specifically.

The broad global changes are important not only at the national and global level, but also at the local levels. They affect outcomes at workplaces, in enterprises and industries.

(The) word and concept (globalisation) are now common currency, in the dire warnings of the captains of industry, in the business press and in business schools, and in the works of public policy analysts, .... The message is clear: the nation state as a regulator of production relations is fast becoming ineffective and obsolete as information, capital, raw materials, semifinished goods, and skilled workers become increasingly mobile on a global scale. There has been a fundamental shift in the structure of capitalism, ... from monopoly capitalism to global capitalism. As for the workplace, once the repository of diversity and variation both within and across countries, it is now subject to inexorable global production imperatives that will uniformly lower wages, remove legal and contractual protections for workers, eliminate or marginalised trade unions, and assimilate personnel management into the human resources variant (Haiven, Edwards and Belanger, 1994:277-279).

Another importance of globalisation lies in the fact that increasingly agents located outside the nation-states come to dominate policy choices that governments make. Such agents include transnationals, the more nebulous capital markets, and international agencies that have acquired an uncanny potential for disciplining states and governments (The Economist, 1995; 5-44). While there is no

explicit political or authority structure for the global economy, there is nevertheless something that remains to be deciphered, something that could be described by the word nebulous or the notion of 'governance without government'... There is a transnational process of consensus formation among the official caretakers of the global economy. This process generates consensual guidelines, underpinned by an ideology of globalisation.... Part of this consensus formation process takes place through unofficial forums... Part of it goes on through official bodies like the OECD, the IMF, and the G7. These shape the discourses within which policies are defined, the terms and concepts that circumscribe what can be thought and done. They also tighten the transnational networks that link policy making from one country to another (Cox, 1992:30).<sup>5</sup>

Interconnectedness between agents, groups and classes permeates national boundaries. Clearly,

The actions of powerholders in one region of a network rapidly and visibly affect the welfare of at least a significant minority (say a tenth) of the population in another region of the network. Such a criterion indubitably makes our own world a single system; even in the absence of world-wide flows of capital, communications, and manufactured goods, shipments of grain and arms from region to region would suffice to establish the minimum connections (Tilly, 1984:62).

Sklair (1995:166-168) observes that globalisation researchers have focussed in particular on two new phenomenon that have become significant in the last two decades: the spread of TNC's and transformations in the global scope of the mass media. Both these are underwritten by two factors; the rise of a neo-liberal economic policy agenda globally and the emergence of global capital markets. Such views, are however, contested by Hirst and Thompson (1996) who engage several indicators to demonstrate the world of trade has not been fundamentally transformed. They especially show that the developed economies remain relatively closed by historical yardsticks and thus argue that globalisation does not represent a dramatic change in the organisation of the international economy.

Economic globalisation is thus a variable, complex and contested phenomenon. Most commentators agree that the process is associated with the globalisation of production, accelerated economic internationalisation and a reconfiguration of state-markets relations. What is clearly lacking from these accounts is an explanation of how states and labour act as agencies and feature in this transformation. Treating them merely as agents that are impacted upon, by the general phenomenon of globalisation and during periods of accelerated internationalisation more specifically appears as a flaw across the globalisation discourse. This study makes a modest contribution to correcting this.

### **2:3 Economic globalisation: writing in state and labour**

The globalisation literature has underplayed the importance of labour and states, and the place of labour regulation in the process of economic globalisation. It is clear that they are not merely agents that are acted upon, but agents that influence outcomes. Labour market strategies, negotiation and contestation in labour markets, and political responses to economic policy (including labour market policy) frameworks provide some levers for subjecting economic globalisation to theoretical and empirical scrutiny. This section develops some guidelines for understanding how such levers may inform out understanding of the general process of economic globalisation.

By developing some guidelines, the study hopes to bridge the conceptual gulf in our understanding about the increasingly internationalised orientation of production on the one hand, and localised and fragmented collective responses, on the other.

Moreover, because economic globalisation appears to drive conflicts to the outer boundaries of market economy, conflicts appear to take highly localised and fragmented expressions. This occurs in core economies such as Japan where the unequal burden of adjustment is transferred to the outermost and smallest enterprises in complex commodity chains (Price, 1997). But it also occurs across national boundaries. The example of Japanese industrial giants relocating small and medium enterprise supplier networks in South East Asia provides evidence for this (Williamson, 1994). Economic globalisation thus remolded conflict by fragmenting and disconnecting sites of contestation. It induced a marked differentiation between 'the integrated, the precariously linked and the excluded' in national and cross-national labour markets (Cox, 1992). Economic globalisation is also associated with the acceleration of such differentiation both among nations as well as within nations. This differentiation of workers appears to energise the process of trade liberalisation. In this process, the state does not sit as a neutral actor. It is an active agent of change, intervening to structure the relations of production and being transformed itself as a consequence. The contradictory pressures of shaping and being transformed through the same process are a defining feature of the state during the general process of economic globalisation. This feature is most sharply outlined during periods when national economies experience accelerated economic internationalisation. Accelerated economic internationalisation occurs when a range of policy measures aimed at trade liberalisation are introduced over a relatively short period of time and when a significant re-composition of economic activity in favour of increased international trade is experienced by these economies subsequently. During this period, both the state and regimes of labour regulation lend themselves to clearer scrutiny. This is helpful when large scale transformations are being studied across a range of economies and in contrasting domestic contexts.

During such periods, a 'hollowed out' state, that is, one with a considerably reduced scope for economic intervention which is a site at which contradictions associated with the general phenomenon of economic globalisation become most transparent (Burnham, 1996). It thus becomes possible to link the global, national and local at this site. For example, economic globalisation depended upon trade liberalisation and deregulation of labour markets. But these are results of complicated political negotiation even in authoritarian contexts. Such negotiation involve states, international agencies, multinational and national corporate groups and organisations of labour. The restructuring of employment relations is thus premised upon state's compliance as well as capacity to manage such complicated negotiations. Its compliance and capacity are therefore central to informing our understanding of the

variable impacts of economic globalisation, and exposing selected contingent and dependent variables for closer scrutiny.

Studies on economic globalisation have been mainly focussed on the private sector, MNE's and capital markets as the engines of change – under-emphasising the state sector (Turner, 1991; Evans, 1997). However, it is in the state sector that new forms of state/labour contestation express themselves more explicitly. Transnationalisation of economic activity appears to have contributed to a general weakening of industrial worker organisations and undermined neo-corporatist settlements whose foundations were stronger in the public sector. At the same time, economic liberalisation was often associated with a renegotiation and reformulation of these structures and settlements; which in turn required political negotiation. Moreover, neo-liberal policy measures for the private sector labour markets also depended upon the prior renegotiations of these structures. Because, this reformulation depended upon the state, its reconceptualisation is thus necessary if we are to make sense of the basis of accelerated internationalisation. In so doing, the state must not be seen merely in its instrumental role, but as a complex agency subject to competing global, national and sub-national pressures, and internally fragmented at the same time. The interface nature of the state and the role of agents within the interfaces provide a conceptual anchor upon which the key propositions that is advanced in this study rest.

But the changing character of the state in comparative settings is a complex research problem in itself. This is so because, in some instances, economic globalisation appears to limit the scope of the state's role in economic management (Cox, 1992). Yet in others, states have been able to powerfully assert their control over policy and economic management (Radice, 1999). Changes in the degree of influence that states exercise over the formulation of economic policy are distinct, but uneven across states. Such changes draws our attention to the structure and operations of different state institutions across states. The problematisation of a transformed state in relation to factors associated with economic globalisation, as well as in relation to agents that affect change is inherently complicated therefore. We need to understand factors that drive transformations in the role of the state and those that shape its responses to changes in the global political economy. The state is central to explaining continuities in regimes of economic and political governance as well as sharp breaks or u-turns in them.

It is necessary to explain the changing contours of state and industry relations in concrete historical conjunctures (Bonefeld and Holloway, 1991). Changes in labour regulation accompany shifts in industrial strategy and economic policy. A powerful centralised state bureaucracy can, at least theoretically, regulate and influence key

agencies including those that act on behalf of multinational capital. A small state bureaucracy may, on the other hand, broaden the influence of corporate elites on the public policy making process. Globalisation has not had homogenous impacts upon states. Different societies are thus subject to widely differing sets of domestic pressures (Kiely, 1994: 154-156). Sweeping generalisations that suggest the emergence of states that merely respond to interests of multinational capital and that are hollowed-out as a consequence of restructuring needs to be backed by concrete empirical evidence.

But there are other reasons why state and labour markets need to be factored into the study of economic globalisation. If the post Cold-War 1990s represent a new phase of global capitalism, amplified by the exponential expansion of international finance markets<sup>6</sup>, it may be possible that modes of labour regulation, especially in the internationalised sectors of economic activity have become increasingly homogenised. This may occur, for example, through the emergence of international regulatory standards associated with regional trading blocs, in ways that were not so possible in the pre-WTO era.<sup>7</sup> Thus economic globalisation can also be associated with greater, rather than lesser degree of international (or regional in case of trading blocks such as the European Union and APEC) labour regulation (Picciotto, 1991: 43-46; Bienefeld, 1994).<sup>8</sup> Explanations for differing labour standards across the sample of states that are examined throw light on the unevenness in the harmonisation of modes of labour regulation.

Yet another factor that encourages us to place the state at the starting point of our analysis arises from a critique of the 'internationalisation of the state' thesis. This school observes that the loss of effective sovereignty by states in economic policy is matched by the development of transnational mechanisms for the development of economic policy (Cox, 1992; Radice, 1999). These transnational mechanisms need to be expounded. But variabilities still appear striking even in those public policy areas where we have noted some convergence. Privatisation, which is commonly associated with this broader public policy framework, is still premised upon different modes of labour regulation. Moreover, in several states, the state itself has been a major bulwark against privatisation, resisting the opening up of some state sectors, as well as managing highly corporatist labour relations regime. Such responses obviously contradict the broader deregulatory thrust of economic policy that is associated with the 'internationalisation of the state' school. The preservation of sources of state power, and corporatist institutions upon which they rested went hand in hand with the otherwise internationalising thrusts of public policy in many states.<sup>9</sup>

Moreover, the centrality of the state is further affirmed by the fact that states shape the global policy environment and endorse national commitment to policies



developed at the global level. The overbearing influence of the Post-Bretton Woods institutions is not directly based on the might of transnational capital, but consensus between competing states. Thus the structural adjustment "fad" of the 1980s and the shrinking of the overdeveloped state, i.e. an excessively interventionist state, were developed largely consensually by competing industrialised states. Public policy choices that sought to constrain the interventionist and regulatory capacities of states were also backed by multilateral institutions such as the World Bank and the OECD .

Besides the pressures of globalising markets and institutions, capitalist states responses also reflect the interests of capital nationally (or at least of dominant fractions within it). These often underwrite policy options. Crisis of accumulation periodically led to a re-negotiation of such social relationships. Moreover, re-negotiations may often involve overwriting the interests of national-capital in the short term. Neo-Marxist analyses such as those of Clarke are helpful in thinking about state strategies and options during such periods. He notes that

attempts to resolve the crisis through either inflationary or deflationary means carry enormous risks, either course threatening to destabilise the international financial system... For this reason it is likely that capital will continue to make every effort to ... reconcile the expansion of debt with the stability of the financial system through international co-operation ... Such co-operation presupposes the willingness of Governments to sacrifice immediate national interests in order to sustain accumulation on a global scale, so is constantly threatened by domestic political pressures which make such sacrifices politically unacceptable (Clarke, 1988: 131).

From this standpoint, the reformulation of modes of labour regulation and a reconstruction of the institutional form of the state itself are examples of state responses to crises of accumulation. Once again, by commencing our analysis from the standpoint of the state, we are able to get a purchase on an underlying generative mechanism affecting the process of economic globalisation and the patterns of economic internationalisation.

Economic globalisation constantly appears as a process that involves negotiation between national and international interests. This does not, however, presuppose that there is a homogenous national interest or international interest. Clearly, the nation state is the loci of multiple contradictions and conflicts not only between classes in the market sector, but also between all classes in the formal sector and "excluded groups"<sup>10</sup>, and classes located in the non-market modes. Moreover, such contradictions conflate into variable collective forms. Feminist, environmental and other new social movements complicate the responses to globalisation (Waterman, 1996). Their reconstitution at the international level also gives a view of

the complicated dimensions to political negotiation and the role of states in such negotiation.

National governments try to reconcile competing interests and promote politically acceptable compromises while taking into account the exigencies of the global system.<sup>11</sup> This appears as an endlessly complicated task, blurring traditional forms of politics and transforming the arena of politics in ways that transform the state as well. Burnham (1994) observed that

it is evident that the conceptualisation of public services alongside deregulation and privatisation has transformed the character of the state. For example, Australian Department of Social Security is actively competing in global markets, while French water authorities expand into Britain following privatisation. This process has been described as the "hollowing out" of the nation state. While some state capacities are being transferred to pan-regional or international bodies, others are devolved to local levels within the nation state, and yet emerging horizontal networks that bypass central states and connect localities and regions in several nations usurp others. Globalisation has not signaled the end of the state but rather a tendency for a three-way hollowing out of its national institutional form. A refined organisational view of the state is one of the conceptual tools that will enable political science to understand the changes in the global political economy (Burnham, 1994: 6).

Skocpol's argument that 'state is a potentially autonomous organisation located at the interface of class structures and international situations' (Skocpol, 1979: 33) provides a leverage for theorising the transformed state. The vitality of the modern state is the fact that 'modern states enjoy a potential autonomy that is far greater than most varieties of Marxist conceptions allow' (Rueschemeyer, et.al. 1992: 64).<sup>12</sup> Intensifying contradictions within global capitalism and varying national expressions of these only work to enhance the importance of the state at that crucial axis where the interfaces occur. In this situational matrix, the state becomes an agency, which reconciles and adjusts national economic policies to the perceived exigencies of the global economy. Consequently,

the state becomes a transmission belt from the global to the national economy, where heretofore it has acted as the bulwark defending domestic welfare from external disturbances. Power within the state becomes concentrated in those agencies in closest touch with the global economy - the offices of presidents and prime ministers, treasuries, central banks. The agencies that are more closely identified with domestic clients - ministries of industries, labour ministries, etc.- become subordinated (Cox, 1992: 31-32).

Inevitably, there develops a tension between the 'hyper-liberal globalising capitalism, and a capitalism rooted in social policy and territorially balanced development' (Cox,

1992: 31). This thesis engages this contradiction head on in conceptualising the role of the state. This 'transmission belt' or 'nodal' nature of the state noted enables us to connect policy transformations and state restructuring to their underlying generative mechanisms, a principal aim of this thesis.

To understand these underlying generative mechanisms, it vital that we do not invest too much in the 'state' to yield explanatory accounts. Recent turbulences in capital markets throughout Asia (*The Economist*, December, 1997; Jomo, eds., 1999), for example, demonstrate the culpability of even interventionist and developmental states. And yet when states respond to pressures that increasingly open capital markets impose, they do so in ways that can be best described as 'political'. State responses are political as they reflect some consensus about the national interest and compromises. These reflect social relationships rooted in both the domestic as well as in the wider global environment. These compromises and interests are products of negotiation and reflect underlying contradictions. These negotiations are expressed institutionally, through for example, a re-organisation of power within state institutions, or through unions, parties, or tensions between governments and capital markets and other agencies. In this manner politics become central to explaining and understanding the nature of, and variability in, state responses, policy shifts and subsequent economic restructuring. In this thesis, I have demonstrated that the political becomes more visible at the interfaces between the global and the national. Accelerated economic internationalisation intensifies conflicts and competition at these points and thus activates a range of institutional mediation of political agencies. The use of the term 'political' captures the enhancement of the role of the state as the primary institutional mediator at the interfaces.

Claims by governments about the protection of 'national interests' through policy interventions elaborates the contested nature of the any notion of the 'national interest'. State mediations often depend upon some ideological references. They may include references to goals of competitiveness, developmentalism and other similar themes brought out in the country chapters. Recent state responses show that states do not merely respond to global pressures such as the calls for liberalisation in the financial sector. Their responses take into account and reflect domestic considerations. In this manner, state policy responses inevitably take on political dimensions, although they may appear to be merely technical in nature.

It is not inconceivable that labour market and economic policy responses adopted in the present climate of neo-liberalism and reform may be subject to political renegotiation. Again, it is argued that we are currently witnessing a process that is still evolving, through creative forms of intervention and co-ordination (Wade, 1996). If modes of labour regulation were to be renegotiated, where does that leave

the globalising states? States that are examined here have thus far have managed the contradictory requirements of the international markets and domestic pressures, with some damage to democracy and open government in the process. Their differential approaches to such management are reflected in labour market variabilities for example. So what do internal transformations within nation states represent? While states depend on accumulation and hence expansion of capitalism - they also remain sites of accumulation. As such they are competitors in the accumulation process as well. New sets of agents appear to influence their participation and competition in a variety of ways. They also provide indicators for state behavior in managing and structuring markets. States do not negotiate, people representing interests do. Yet some states appear to compete as a block in the international system, while others leave that to market agents. These contradictory claims sketch out a strong area for further research. This study advances some theoretical pointers for formulating and studying these research questions.

#### **2:4 Conclusion**

This chapter has advanced the argument that economic globalisation impacts upon states in a variety of ways and that states drive that process through policies that are products of political negotiation. As a result, it concluded that the state was a central lever to help us understand the process of economic globalisation. The adoption of historical and comparative approaches that are grounded in the experiences of three reform oriented states differentially positioned in the global economic system provide pointers for understanding the underlying generative mechanisms affecting, or co-determining different state responses. Such an approach encourages us to critically examine state regulation of labour and labour markets especially during periods of economic restructuring and accelerated internationalisation. But the development of such a study depends upon a robust articulation of the comparative and historical methodological framework.

## Chapter Two: Endnotes

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1. Kiely (1994) similarly contests the conventional approaches within development theories that seek to read-off developments in the 'periphery' in relation to events in metropolitan countries. His emphasis on indigenous classes and state structures locates some key indicators of development in relation to the NIC's.
2. It can also be argued that industrial relations outcomes are going to oscillate; rather than be homogenous. If differentiated industrial relations outcomes result from a neo-liberal ideology driven restructuring process, how central then are industrial relations itself to the process to reform? I return to this question in Chapter 7.
3. Rueschemeyer et. al. 1992 critique the Marxist state theories which conceptualise restructuring in terms of modes of domination, relative autonomy, and economic determination as being too narrow. Holloway (1994) critiques theorisations of the state in purely national terms as being similarly too narrow.
4. Peter Nolan ("Understanding the employment relation", public lecture, University of Warwick, 16/1/95) alludes to the poverty of theory in industrial relations as one of the reasons for the growing popularity of labour economics. Based on a study of the British coal industry, Nolan challenged some of the basic premises of labour economics, particularly its treatment of unions and the firm in an undifferentiated manner.
5. This contrasts with the view that 'global' simply refers to the growing interdependence of the international economy, organised along a number of connected dimensions of economic activity (see, for example, Michie and Smith, 1995).
6. Cox (1992: 31) notes that 'global finance has achieved a virtually unregulated and electronically connected 24-hour-a-day network. The collective decision making of global finance is centered in world cities rather than states'. Developments in the global capital markets have given much broader impetus to the "space"-centered conceptualizations (Harvey, 1989).
7. Schor and You, (1995) assess the implications of GATT and the WTO on international trade in specific sectors. They conclude that international trade agreements can reduce the scope for state intervention in labour markets – thus further disabling them.
8. In 1995, transnational employers can be subject to the two codes of practice: firstly the International Labour Organisation's (ILO) Tripartite Declaration of Principles of Multinationals and Social Policy and the Organisation of Economic Co-operation's Guideline on Employment and Industrial Relations. International workers groups have proposed linking international free trade with social clauses within the framework of WTO. Unions have been pursuing similar types of agreement within regional trading

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blocs such as the European Union, and APEC. While such movements express the internationalisation of class struggles, they also reflect deep and growing tensions within the international worker movements (Williamson, 1994).

9. For a discussion of the national and international axes of labour and state strategies, see Picciotto (1991). Kamo (1994) demonstrates the overbearing national orientation of public policy interventions by the Japanese state in pursuing economic internationalisation.

10. The term "social exclusion" has gained currency in the publications of the OECD, the ILO and other international institutions. (Rodgers et. al., 1995) makes a modest effort at theorising social exclusion as a permanent feature of both advanced and peripheral capitalism. This conceptualisation applies to the non-formal employment sectors in the case studies here quite well.

11. At the same time, there are periods when change is imposed via state structures through distinctly authoritarian means. The excesses of "Thatcherism" have been widely noted, as has been the assault on trade union freedoms by the National Party in New Zealand.

12. To deal with contradictions between different types of states, Holloway suggests that because capitalist social relations are global, 'each national state is a moment of global society, a territorial fragmentation of society which extends throughout the world. No national state, 'rich' or 'poor' can be understood in abstraction from its existence as a moment of the global capital relation. The distinction so often made between 'dependent' and 'non dependent' states falls. All nation states are defined, historically and repeatedly through their relation to the totality of capitalist social relations' (Holloway, 1994: 32).

## **Chapter Three: The Historical and Comparative Framework for Cross-National Studies**

### **3:0 Introduction**

This chapter develops the methodological framework for the thesis. To develop this analysis, three states are examined. These are differently positioned within the Asia/Pacific regional economy. A historical-comparative method for understanding the complex relationships between state strategies, labour regulation and economic globalisation is developed with reference to these case studies.

The relationships between state, labour regulation and economic globalisation is viewed through the process of economic reform, drawing out the distinct impacts of shifts in economic policy. Although the 'state' is the node through which economic reform is operationalised, the analysis covers a range of agents that influence state policy. The three states were carefully selected to lay the groundwork for rigorous and systematic comparison. This comparison throws light on the process of economic globalisation and the place of different approaches to the regulation of labour in that process.

The first section of this chapter presents the methodological framework of the study, outlining the importance of a historical-comparative approach. Some of the problems of comparison in cross-national settings are outlined in this section together with a discussion of the autobiographical origins of the study. A discussion of the limitations and the strengths of comparative methods and techniques deployed for data collection is presented as well. This is followed by an outline of the key propositions that are studied and a discussion about the selection of the case studies. The chapter then outlines some of the background features of each state covered by the research.

### **3:1 Methodology for the study**

#### **3:1:1 The historical -comparative approach**

The methodology deployed in this study is primarily a historical-comparative one. This methodological approach is viewed as being most useful in studying large-scale transformations across states. The historical sociological tradition developed by Skocpol (1979; 1994), Tilly (1984) and McMichael (1995) provide the building blocks for this methodological framework. In developing this approach, some of the inherent weaknesses in comparative approaches to sociological research had to be redressed. These include, the undervaluation of history in the comparative industrial relations school (Crouch and Traxler, eds. 1995; Hyman and Ferner,

eds.1994), and the overbearing eurocentricity of the broader regulationist and globalisation schools (Ruigrok and Tulder, 1995; Sklair, 1995).<sup>1</sup>

To examine our principal hypothesis, the study needed to be able to deal with large scale processes whose impacts are felt not only within states, but across states as well. These processes occurred over several decades. Skocpol (1979) and Rueschemeyer et.al.(1992) have demonstrated the vitality of historical comparative methods in their analysis of macro-processes across national settings and over long time frames. However, in using comparative historical approach and data, it has not been our focus to

collapse all comparative history into multivariate analysis ... (it) is recognised that comparative history could be used not only for hypothesis testing, but also to contrast different societies or cultures and to highlight their respective individual features (Sckopol, 1994:92).

Such data helps highlight the differentiating and homogenising aspects of transhistorical global tendencies. This study adopted the strategy of 'analytic induction'. Analytic induction begins 'with a thoroughly reflected analytic concern' and moves from understanding of a few cases to the articulation of potentially generalisable theoretical insights capable of explaining the problematic features of each case. These theoretical generalisations are then re-tested in the other studies. Committed to theoretical explanation and generalisation, analytic induction builds its arguments from the understanding of individual histories. A key feature of analytically inductive research is the initial theoretical reflection. This takes the form of an explicitly developed 'theoretical framework of concepts, questions, guiding ideas and hypotheses' (Rueschemyer et. al., 1992: 36-7).

A comparative historical approach has special strengths in dealing with two phenomena. They are:

multiple causal paths leading to the same outcome and different results arising from the same factor, or factor combination, depending on the context in which the latter operates (Rueschemeyer et. al, 1992:34).

Comparative historical research has a powerful advantage in assessing multiple and 'conjunctural' causation as the reason for the peculiar complexity of social phenomenon and especially of large-scale phenomena (Rueschemeyer et.al., 1992).

This study begins from the premise that structural changes associated with economic internationalisation transform both the social and institutional dimensions of the capitalist state. Such transformations involve a range of political and economic actors. They transform the arena of political contestation as well.<sup>2</sup> Social relations are displaced and axes of contestation redrawn



at these junctures. In such large transformations, the axes at which the national and global intersect get blurred. These transformations displace some agents, empower others and transform most agents. In this manner, the process of economic internationalisation has eroded many conventional conceptual categories. Cross-national comparisons thus have to pay particular attention to defining the categories and concepts that are the subject of analyses quite sharply.<sup>3</sup> A longer time scale also allowed me to observe largescale transformations in the policy environment in contrasting national settings. But the problem of separating the general from the specific remained. Without being able to do this, the relationships between the key variables would be difficult to establish or sustain. Critical realism provided a way of overcoming this problem. A critical realist ontology is open to the view that explanatory variables for social phenomena and relations are not only internal but also external or contingent in any situation (Bhaskar 1994;1995). It assumes that 'social phenomena vary in their degree of historical and geographical specificity, some being highly context-dependent, others less so. Critical realism offers support for a position where some objects have trans-historical essences, some are specific to periods of varying duration and some are transitory' (Sayer, 1995:27-8). Using insights gained from critical realism, the study was able to both separate the historical and geographic specificity of several variables associated with the phenomena of accelerated economic internationalisation and draw out the internal and contingent variables that affected that process.

Large scale transformations of the type studied here, reflect more than a "deepening" of the global economic structures (Broad, 1995:21). They are also more than a transition from Keynesian demand management to neo-liberal monetarism; blurring the conventional political conceptualisations of economic policy.<sup>4</sup> They often occur in response to some real or perceived economic crisis. By exploring the interconnectedness between national, industrial or workplace changes and the global context over a longer time frame, these transformations can be conceptualised. By recasting the state's role in facilitating the complicated interlinkages, both the interconnectedness between variables and agents can be better understood. This approach takes its cue from Bonefeld, Brown and Burnham (1995) and Holloway (1995) who rescue the state's role as an agent with reference to Britain. As a result, they are able to bring the politics of economic restructuring back to the centre stage of their analysis.

To help the comparison, some abstraction was also necessary. This abstraction was informed by two factors. Firstly, by locating restructuring in specific national contexts, a better purchase on political contestation could be obtained. Secondly, the examination of economic reform programmes assisted the construction of a framework for cross-national comparisons.

While most member states of the OECD and the IMF are undergoing some form or the other of economic restructuring, not all lend themselves to cross-national comparison given either the very moderate pace of restructuring (as in Sweden and Denmark) or because restructuring is periodically reversed as a result of political pressures (India and Nigeria). Thus a good selection of states where there is a visible continuity in the restructuring agenda that can survive regime changes is more suited to an exploratory theoretical study. A comparative and historical approach was also important to understand the overall and long term direction of structural transformations.

Structural changes in the international economy reinforce the importance of grappling with economic interconnectedness. We have witnessed the evolution of the international economy into more global economy, one less bound by nations and by the control of states. This is more than a difference in semantics. Politically, states still exist, with governments that can enter into agreements on their behalf, but the influence of those governments over their own economies has become more limited and uncertain. A gap has arisen between an international economy and national trade and monetary policy. Economic developments move faster than an individual government's ability to react, and market forces quickly outrun their policy decisions. Even the terminology of international trade is misleading. States do not trade, companies do, and now those companies often "trade" within themselves, subsidiary to subsidiary, their national allegiance one of convenience, blurring notions of export and import (Nitze and McCall, 1996: 216).

A comparative and historical focus helps emphasise the interconnectedness within an international system. Such interconnectedness may be established by observing patterns of trade, the role and operations of multilateral financial institutions and the role of 'techopols'. This helps us overcome the conceptual problems created by the appearance of disconnectedness between different agents and between economies. Some aspects of this interconnectedness can be illustrated with reference to labour market policies. In this regard, the presentation of labour market reform policies as highly technical and scientific programmes had the effect of depolitisising the policy formation process. Policies thus appeared to become divorced from the political sphere. Through comparison and contrast, we can see how 'depolitisation' is achieved and sustained, and outline the different national experiences of depolitisation. This helped throw light on some key aspects of the broader transformations associated with economic globalisation. A comparative approach also demonstrates the capacity for capital and industry to (re) organise itself across historical and situational contexts through economic policy regime shifts, and help us understand the variety of ways in which depolitisation features in this re-organisation (Boyer and Drache, eds. 1996).

There are twin processes at work in economic globalisation. On the one hand, changing

production relations require different forms of intervention by the state. In certain periods, these forms may appear in relatively homogenous ways across states. On the other hand, economic internationalisation that results from restructuring has highly fragmented outcomes across and within states. Such diverse outcomes generate diverse responses. Arguably, the British economy is no more internationalised now than it was between 1870 and 1914 (Hirst and Thompson, 1996a and 1996b) while the opposite is true for countries such as Malaysia and Japan who maintained protective domestic markets during their post-war industrialisation. Some developments that are associated with economic globalisation are clearly rooted quite specifically in national contexts, while others are of a more general nature.

Studies of globalisation that place states and their relation to labour as the starting point for analysis are best approached from a comparative and historical perspective for two reasons. First, an essential feature of the globalisation is that national economies are re-articulated in an international economic system. This involves a number of agents and occurs through the compliance of states, which draws attention to the problem of negotiation within states. Negotiation in the present period results in a variety of programmes of economic (re)regulation of which labour regulation is a key element. In the negotiation and presentation of strategies for the (re)regulation of labour, policies are often framed in a 'depoliticised' manner.

Depoliticisation, in this respect, refers to the process whereby economic policy decisions are removed from the sphere of public debate and scrutiny (Bonefeld, Brown and Burnham, 1995).<sup>5</sup> It also refers to the ways in which economic policy decisions, once adopted, are shielded from democratic scrutiny. Because politics appears to be removed from negotiation, labour's compliance and regulation cannot be well understood. A comparative inquiry helps us understand how contestation and negotiation is affected by the different experiences of 'depoliticisation'. Moreover, it also helps draw attention to the centrality of the process of 'depoliticisation' itself to the reform project. A historical and comparative focus was central to my efforts to define this process, and draw some generalizable conclusions about it.

Second, such an approach also helps us overcome the shortcomings of national studies, and regional studies (Wade, 1992). This study places a high premium on the multiple agents in the global system. Given that states retain vital influence over the policy making through their organisational configuration, by defining distinctive locations and support for economic activity, by providing differential access to groups and as an arena for contestation itself (Campbell, Lindberg and Campbell, 1991: 358), reform agents need to be identified and scrutinised.<sup>6</sup> This approach also helps us overcome the state and market dichotomy. A historical and comparative

framework helps us recast them not in competitive terms but in dialectical ways that emphasise their contingent relationships. The transformations of the state, the variable responses and approaches to labour regulation during periods of regime change and accelerated economic growth throws light on this contingent relationship. However, more general conclusions derived from analytic induction could only be valid if the tools for making the comparisons held up to scrutiny. It was important to therefore pay attention to the comparative method.

### **3:1:2 The comparative method**

A particular problem that I have had to deal with in this study was assessing and evaluating data drawn not only from a number of countries but from a range of sources as well. The success of a comparative inquiry depends upon the careful selection of data that lends itself to cross-national comparisons. But in selecting the data that is used in this study, I became aware that data that is generated in different disciplinary settings inevitably complicates analysis and induction. This is so because of the different methodological techniques deployed by different disciplines. To make meaningful comparisons, it is vital that methodologies that are drawn from across disciplines were properly contextualised and their key assumptions critically assessed.<sup>7</sup>

Comparative projects in industrial relations have provided a useful starting point in formulating a comparative methodological framework for this inquiry (Hyman and Ferner eds. 1995; Cook and Kirkpatrick ed., 1995). However, this study proceeds from the base that economic internationalisation has been associated with the internationalisation of policy making and economic regulation (Picciotto, 1991; Cox, 1992; Harvey, 1989). This process is associated with changing technologies of production, regimes of accumulation and productive capacities. Changes in both labour regulation and the organisation of the state itself reflect the particular responses on the part of the state as competitive actors within that global system. But all states are not pressed by similar exigencies. They respond differentially even when external exigencies were of a similar nature. Thus, the variabilities in responses and outcomes to economic reform need to be problematised at the outset. To understand variability, it is important to have a selection of states that are variously positioned in the global economic system and that presented for comparison a range of domestic 'change agents'. This range included organised labour, political parties, bureaucratic elite and think tanks.

If globalisation is both a homogenising and differentiating process at the same time, then clearly we can best view that process comparatively. The starting point may be to situate this contradictory development as a backdrop to the comparisons. This helps draw out the ways in

which 'globalisation' does or does not induce change at the national level. This approach is thus sensitive to the dialectical and contradictory relations that underpin states. The challenge is to locate these processes and understand how they arise in the first place.

In developing the comparative approach, it is appropriate to also take note of Holloway's warning that:

comparative analysis which focus on the occurrence of similar socio-economic changes in different countries as in the regulationist analysis of Fordism, takes us deeper, but the analogies, although suggestive, tend to be sketchy and superficial: the unity on which analogies are inevitably based remains untheorised. To reach a satisfactory understanding of the changes taking place at the moment we need to go beyond the category of the 'state', or rather we need to go beyond the assumption of separateness of the different states to find a way of discussing their unity (emphasis added - Holloway, 1994: 25).

It is largely via the state that we connect the particular and the global. The interconnections in the global system are made possible through international, national and sub-national agents. But in each instance, conflict is grounded at the interface of the global and the local. The state provides this interface.

But the comparative approach is laden with other complications as well. A central problem concerns the need to ensure comparability of concepts across cultural and historical settings (Runciman, 1994; Sanders, 1994). Archival materials as well as institutional assessments need to be studied with reference to their cultural, social and historical milieu. By identifying the particular form that variables take, the distortionary influences of cultural, and social and historical specificities can be minimised. While, the strengths of this study lies in its comparative focus, their validity rests on how well the conceptual issues are dealt with. These issues involve concerns with equivalence and the question of what constitutes data. The problem of interpreting data from a range of sources is also noted, along with the problem of connecting the specific with the general. In dealing with institutional data, the study used Roots (1993) notion of critical social sciences to draw out their 'idealised' underpinnings.<sup>8</sup> In formulating the methodological framework, these concerns have been carefully considered.

This study uses the comparative data to distinguish between the 'general' and the 'particular'. It does not merely seek to collect cross-national data and draw out the general lessons. That would be little more than description of national trends and analysis (Hyman and Ferner eds. 1994; Windmuller, 1987). Even institutionalist approaches such as that of the ILO (1995b) demonstrate widely divergent meanings associated with key conceptual terms and processes across different social formations. Skocpol (1979); Rueschemeyer et. al. (1992) and

Tilly (1984) have discussed these problems in their analysis of macro-processes. By refining that approach, we have been able to both build on existing studies and make sense of a large volume of cross-national data at the same time.

But the comparative approach also depends upon how vigorously and critically variables were pre-selected. This thesis draws upon the approaches to preselection highlighted by Skocpol (1994; 1979) and Wallerstein (1997). Both these approaches sharply contrast the largely ahistorical comparative approaches popularised by industrial relations researchers. By conflating the two approaches, more empirically tenable comparative methods were developed for this study. These helped us analyse data from multiple sources and countries. This study thus proceeds by acknowledging the differences (such as varying political institutions) and similarities (such as economic policy responses) and contextualising these with references to specific national factors. This also helped to highlight the historical and the specific and understand their interconnectedness. By using changing state strategies as its leverage, empirically sustainable interconnections are developed. Because the state is the nodal point at which these outcomes are expressed, and because it is through state strategies that outcomes are mediated, comparisons become theoretically explainable as a consequence. In this respect,

(the) comparative method can be used as a way of generating and/or validating theories, models 'that are either of potentially universal application or at least readily transferable to a number of situations other than those being directly examined. The purpose of using the comparative method may therefore lie either in demonstrating the validity of a theory by illustrating its analytical comprehensiveness by reference to comparable instances or in advancing a set of explanatory hypotheses which is then tested by applying it to a number of comparable (test) cases. But there is a third way in which the comparative method can be utilised: as a way of identifying what has to be explained. (In this respect) the comparative method can be used as a way of grasping the peculiarities of each analysed 'case' and establishing what is particular about each specific historical experience. Rather than look out for uniformities on the basis of a comparative analysis, this strategy of comparison aims to identify peculiarities, i.e. differences, between 'cases' by contrasting instances. In short, through a contrasting comparison, the particular features of each individual 'case' are highlighted (Axtmann, 1993: 69).

The thesis thus endorses the view that 'comparative research consists not of comparing but of explaining'.<sup>9</sup> The general purpose of 'cross-national research is to understand' (Dogan and Kazancigil, 1994:15).

By sharpening the comparative methods to advance explanations of the phenomena being observed, I was able to adequately synthesise a range and a large volume of data. This data was both of a qualitative and a quantitative nature. Moreover it was both of a primary as well as of a secondary nature. The section that follows spells this out.

### **3:1:3 Data collection**

This study is based on both qualitative and quantitative data. Given its comparative focus, this mixture of methodological approaches was necessary if the study was to capture the operations of a range of change agents over a long period of time. Moreover, it was also necessary to demonstrate one of its principal theoretical concerns, that is, of demonstrating the different experiences of 'depoliticisation' during reform periods.

The qualitative data was derived from key informant interviews in Japan, Malaysia and New Zealand. The study has relied extensively upon key informant interviews. Given the exploratory nature of the study, this technique allowed for repeat interviews. It also enabled me to deal with the major shortcomings that are identified in the secondary materials used in this thesis. Key informant interviews also allowed me to explore economic policy debates and discourses that were occurring during the writing-up phase. In each country, key informants were chosen from academic, industry, government, union and employer organisations. This ensured that the main perspectives on the major reforms that are studied were captured. Because both primary and secondary materials were also identified through key informants, this method also ensured that primary materials from a range of sources were examined. This method proved vital in validating primary data, and capturing the degree of contestation over economic and labour market policy shifts between 'change agents' and interest groups. Both, the validation of data and the capture of degrees of contestation proved essential for examining the hypotheses being tested in this study.

Key informant interviews were useful in another way. Several respondents that were chosen were closely involved with the reform and restructuring programmes in their countries, or across all the countries. Key informant interviews provided an opportunity to capture some of the autobiographical experiences of these players. They also helped me to understand some of the ways in which the compliance of organised labour and other interest groups were achieved. Moreover, key informant interviews were useful in establishing the influence and impact of 'technopols' over policy discourses. These impacts and influences were often of an informal nature and they also cut across national boundaries. Again, the special role of 'technopols' was useful in testing the main hypotheses of this study.

Key informant discussions in Malaysia were held with the following: Dr Peter Wad (of Copenhagen Business School), Dr Dunston Ayadurai (Department of Economics, University

of Malaya), Rajasekran (General Secretary, MTUC), Siva Subramaniam (Secretary General, CUEPACs and NUTP), Dr Chandra Subramaniam (Research Director, Ministry of Human Resources and Development), Bruno (Research and Education Officer, MTUC), Arokia Dass (union activist) and Muthusamy (Vice President, Kesatan Pekerja Tenaga).

In Japan, the following persons were consulted: Prof. Jim Benson (Hiroshima City University), Dr Michael Ehrke (Director, Fredrich Ebert Stiftung, Tokyo), Mitsuo Tanaka (International Affairs Bureau, RENGO), Dr Shigemi Yahata (Senior Researcher, JIL), Naoyuki Kameyama (Research Director, Japan Institute of Labour), Dr Shiro Kawai (Japan Institute of Labour) and Prof. Takashi Inoguchi (The United Nations University).

The following person were consulted and interviewed in New Zealand: Colin Hicks (State Services Commission), Professor Kevin Hince and Jonathan Boston (of Victoria University of Wellington), David Thorp (General Secretary of the PSA), John McCaskey (New Zealand Employers Federation Inc.) and Peter Harris (NZCTU).

In these countries, I also consulted officers in planning, human resource and policy units of government. These respondents choose to remain anonymous. Moreover, the qualitative data was also drawn through discussions with officers employed by the International Labour Organisation, the Asian Development Bank and the APEC secretariat. These discussions were mostly informal. They proved useful in identifying sources of official data. They also proved useful in assessing the ways in which regional and international agencies acted as conduits through which aspects of economic policy discourses were harmonised and national policy guidelines established.

The study has also used a range of quantitative data derived from primary and secondary materials. The main source of data and information on economic policies and reform programmes has been official documents, especially those from finance departments, economic policy institutions and treasuries. These were backed by official reports from international institutions including the Asian Development Bank, the World Bank, International Labour Organisation, The International Monetary Fund and the OECD. These regional and international agencies provided comprehensive economic and labour market data. These data were derived from annual reports of these agencies, periodic country surveys and official memorandums that were made available. In addition these agencies also provided substantial 'on-line' country and regional economic and labour market data.



While the official data used was important to understand economic trends and especially to understand the sectoral content of economic internationalisation, it was useful in other ways as well. The reports of the OECD, the IMF and the World Bank covering the period 1975 to 1995, almost always were prefaced by remarks about the validity of neo-liberal economic policies. They often selectively used macroeconomic data to demonstrate national commitment to economic internationalisation. Macroeconomic data was also used selectively to comment on the 'institutional constraints' to economic internationalisation as they were perceived by these multilateral agencies. In this manner, the construction and presentation of what appeared as technocratic data became a subject of analysis. Besides validating the concerns about the influence of international agencies upon policy, this exercise also cast light on how the 'science of economics' was deployed to obtain politically selected developmental outcomes.

In addition, the study drew upon primary materials from a range of sources. In New Zealand, primary materials were obtained from libraries at the Public Service Association Library, the NZCTU library and the New Zealand Business Roundtable resource centre. In Malaysia, primary materials were gathered from the MTUC and CUEPACS, and the Ministry of Human Resource and Planning. In Japan, primary materials were gathered from the libraries of RENGO, MITI and the Japan Institute of Labour. The primary materials collected from these sources included official policy documents such as development plans and white papers, annual reports, press statements, official memos, policy position papers or publications. Such documents were extremely useful from a number of standpoints. Firstly, they amplified the different positions taken on key economic policy questions by different social and institutional actors. In this respect, they were helpful in tracing the contestation and public debates over economic policy questions. They were also immensely useful in explaining the nature of responses by different social actors.

Secondary research was carried out at the following university libraries, Victoria University of Wellington, United Nations University (Tokyo), Meiji Gakuin University (Tokyo), University of Malaya (Kuala Lumpur), the University of the South Pacific (Suva) and the University of Warwick. World Bank documents were obtained through its office in London.

Both primary and secondary materials were also obtained from the International Labour Organisation libraries in Geneva and Bangkok. ILO technical experts in Geneva also provided

useful background information about the research. Through the ILO, I was also able to access policy papers that were not made available during field research in the three countries. These papers helped throw particular light on the often-haphazard manner in which national policy agencies approached economic restructuring and labour market reforms more specifically. They also helped throw light on policy debates between national and international agencies and on the relationships between national policy units and international agencies such as the ILO and the World Bank.

I was also able to hold discussions with researchers working on these three countries through my participation in the International Industrial Relations Association conference (Asian Region) in Taipei (August, 1996) and the Industrial Relations Association of Japan conference in Tokyo (December, 1996). These seminars also provided opportunities to revise my research data and hold repeat discussions with several key respondents.

Some of the theoretical questions that are dealt with in this study were presented to the University of Warwick Centre of Comparative Labour Studies and the International Centre for Labour Studies at Manchester University seminars on "State and Labour Regulation". These seminars proved helpful in dealing with the flaws of the commodity chains approach in explaining patterns of economic internationalisation in Asia and in developing the substantive theme of depoliticisation and reform. Comments by Peter Burnham, Peter Gutkind and Simon Clarke (all of University of Warwick) and David Coates (of Manchester University) at these seminars were helpful in reformulating some of the theoretical and conceptual questions associated with the theme of depoliticisation.

My participation in the International Labour Organisation Network of Asian Labour Institutes between 1994 and 1997 provided useful opportunities to develop this research project through periodic discussions with other researchers working in the region more generally. They included Noyoki Kameyama (of Japan Institute of Labour), Rashid Amjad (of ILO regional office in Manila, Duncan Campbell (of International Institute for Labour Studies) and Mr Nakamura (former director of the Regional Asia Pacific Office of the International Labour Organisation).

My involvement in these research networks gave me a purchase on how institutional conceptualisations of the processes of economic globalisation were framed. It also gave me a critical insight into how a convergence in some of these policy frameworks promoted by the ILO, the IMF and World Bank and bodies such as the OECD has occurred, especially during the

past decade. This helped bring to light both the agency and the policy nature of these institutions. In particular, I acquired a critical insight into how these agencies operationalised and helped embed the transfer of aspects of the neoliberal economic policy onto national institutions.

In both Malaysia and Japan, major new economic policy reforms were introduced during the final writing-up phase. Many of these were not assessed in policy documents or in secondary literature. For these debates, the study has relied upon newspapers (The Guardian, Japan Times, The Financial Times and the Nikkei Weekly) and magazines (The Economist, Japan Echo, and the Far Eastern Economic Review). These sources provided adequate coverage of some of the main aspects of economic reforms and financial sector crisis that triggered these reforms. They were given sufficient media coverage given the intensity of the economic downturns faced by these economies and their serious implications not only for the regional economy, but for the international economic environment as well.

The study was supported by a British Overseas Developmental Assistance training grant awarded by the University of the South Pacific (USP), a research grant from the Research Committee of the University of the South Pacific, research support from the Japal Institute for Labour and the International Labour Organisation for research involved with the Asian Labour Studies Institute network, visiting fellowships by the Industrial Relations Centre at the Victoria University and Meiji Gakuin University in Tokyo. Research at the ILO was made possible through an ILO sponsored study attachment to the Institute of International Labour Studies in Geneva. In spite of this, I was unable to spend the time I would have liked to for field work purposes in any of the three countries. This constrained my ability to carry out repeat interviews with several informants, and revisit primary data libraries during the preliminary analysis stages. I also lost a lot of time making initial contacts in these countries. This also limited the success of the field work. Where possible, limitations in field work has been overcome through the use of the internet and electronic databases and through links and insights that were derived from my autobiographical experiences.

### **3:1:4 Autobiographical contributions to the study**

The conceptualisation of the research problems has strong autobiographical origins. My autobiographical experiences have proved central to the design and actual research for this study. These have included my experience as a teacher of comparative industrial relations for seven years. During this period, a neo-liberal economic policy agenda has vigorously propelled labour market changes across different social formations. Such changes appeared to have been

associated with the ascendance to political power of conservative governments. This raised the problem of explaining similar transformations in states that did not experience similar regime changes. As a consequence, the research question began to move away from its primary foci on political factors and lock upon the 'underlying generative mechanisms' (Bhaskar, 1995). This approach meant that It adopted a broader sweep, looking at pressures within the global economic system that drove the remarkable transformations studied.

The study has a parallel origin in a network of labour institutes in the Asia/Pacific region (of which I have been a member through the University of the South Pacific). This network has been exploring the impacts of globalisation on labour regulation and labour market institutions (ILO, 1995a). The country studies carried out in this network broadly stress the homogeneity in the experiences of countries, and emphasise the generally favourable impacts of economic globalisation across this diverse region until the end of 1995. This study challenges both the theoretical and methodological framework adopted by that network.

At another level, this project flows from my MA thesis: titled "Re-Theorising the Post Colonial State: A Case Study of Industrial Relations, Ethnicity and Political Change in Fiji". This study was completed in Fiji in 1987. In analysing policy changes in the aftermath of military coups during the year, my natural inclination was to associate changes in the industrial relations arena with authoritarianism and the need on part of a highly conservative regime to control a politically assertive trade union movement. Immediately following the coups, the regime imposed compulsory state supervised ballots for all industrial action, restrictions on secondary union action, curtailed public sector unionism and introduced a range of anti-trade unions changes in labour law. Using political sociological methods; I interpreted these changes in terms of the political strategies of an illegitimate regime aimed at retaining its tenuous hold on power.

However, during the same period, Britain and New Zealand were legislating even more dramatic anti-union type of reforms. Both New Zealand and Britain went even further than the military regime in Fiji in restructuring their industrial relations frameworks. This led me to ask the question whether, what was happening in Fiji was part of something more global in nature than I had understood it to be.

In developing the research, I was struck by other questions. Could it be possible that Fiji, like other countries was responding to an acute economic and political crisis through labour market strategies? If that were true, it would require a comparative study of a number of countries that did not necessarily face such acute problems. So I looked to the Asian 'miracle'

region. In this region, the newly industrialising economies and Japan had recorded high levels of growth almost persistently for most of the 1970s. One could safely conclude that there was no compelling labour market based reasons for similar reforms in these countries. This is where the picture became complicated. Countries such as Japan coming from entirely different industrial relations traditions were also undergoing restructuring that appeared similar in several respects. Thus the research question grew in its scope to include the high growth regions so the paradoxes noted above could be re-cast in relation to a broader range of factors. Overall, these autobiographical influences have gone far in shaping this project, its methodological approach, as well as in determining the choice of countries that are studied. In many ways, by expanding the scope of my study to include countries in the broader Asian region, I was able to understand better not only what was happening in Fiji during a period of dramatic economic reform, but in countries outside the Asian region as well. The structure and the organisation of the study that thus emerged is outlined in the sections that follow.

### **3:2 Key propositions that frame the historical-comparative inquiry.**

The methodological framework developed in the previous sections is used to address the following questions with respect to Japan, Malaysia and New Zealand:

1. How have regimes of labour regulation been transformed? Moreover, how do regime changes connect to the processes of accelerated economic internationalisation that is a specific phenomenon associated with the more general process of economic globalisation?
2. How have state institutions (and associated 'agencies') and international institutions featured in this transformation? Is a reconceptualisation of the state necessary to reflect these transformations?
3. Does restructuring inside the state relate to the process of economic globalisation? Can we distinguish the particular and the global by studying labour regulation transitions inside the state?
4. To what extent does changes in labour regulation present general or particular phenomena and how can variabilities in outcomes and approaches be explained?
5. Do particular forms of responses by organised labour to the economic reform programmes affect the patterns and pace of economic internationalisation? How can the variabilities in the responses by organised labour be explained?

These questions guide the inquiry into the changing role of the state regulation of labour in the

contemporary era. They shape the main propositions around which the subsequent chapters are organised.

In the country chapters, it is not my concern to present separate historical accounts of the role of the state in restructuring via labour regulation and public sector reforms in individual states in the tradition of the cross-national studies. This study tries to draw out the new forms of state/labour contestation and assess how they are affected by pressures and agencies that are associated with the process of economic globalisation. As a result, a reconceptualisation of the role of the state, and of specific state agencies in particular becomes possible. Such a reconceptualisation presents the state not in its instrumentalist form, but as a process that is moulded by global, national and sub-national agencies. As a result, the 'interface' or 'nodal' nature of the state is brought out. This approach thus provides a theoretical grip on the principal propositions advanced in this thesis.

### **3:3 The selection of New Zealand, Japan and Malaysia**

Much thought has been given to the selection of New Zealand, Malaysia and Japan for this comparative inquiry. The influence of autobiography on the selection of case studies has already been noted. However, in selecting the states, I wanted to examine different experiences of economic internationalisation. Based on an evaluation of the secondary literature, I found that the three countries provided that. Moreover, the selection of the three states has also been influenced by factors such as the level of internationalisation of economies, sustained commitment to liberalisation and the presence of a sharp economic crisis between 1975 and 1995.

All states selected have made a comprehensive, though often 'ambiguous' policy commitment to trade liberalisation. They are all members of WTO and of international institutions such as the World Bank, the IMF and more importantly of APEC. The thesis thus selected states that are variously positioned within the Asia/Pacific trading region. Japan is a core industrial nation that wields considerable influence, not only in the region but globally as well and could shield its national policies from international pressures. Moreover, both as a member of G7 and through its strategic alliances with the United States, Japan has played a central role in the structuring of markets in the Asia/Pacific region. New Zealand by contrast was a highly protected welfarist economy until recently, although it adopted one of the most radical programmes of reform. It presents an interesting case study and serves as a useful comparator in that it points to a different trajectory of change. Clearly, the ability of these two economies

to respond to global exigencies was widely different. Malaysia provides an appropriate case of a 'developmental state' confronting the exigencies of economic globalisation from a different base. It is characterised by a high degree of political stability reflected in its stable economic policy regime. It also draws attention to the specificity of internal political and social arrangements more sharply.

The study deliberately excludes countries from outside the Asia/Pacific region. This is so because over the past two decades economic development, economic policy and internationalisation debates have been concentrated in this region. As a result, all states in these regions have been subject to intense policy debates, and observable shifts in developmental gears. They have been subject to extensive scrutiny by policy institutions (World Bank, 1996a; ILO, 1995b).

The selection of the case studies was also influenced by the following considerations;

- a. To consider states that were differentially positioned in the international economic system.
- b. To examine countries that were actively committed to economic reform.
- c. To draw upon contrasting national approaches to economic development.
- d. To examine different approaches to labour regulation.
- e. To assess examples of significant policy transformations over the past two decades.

New Zealand, Malaysia and Japan met these requirements.

While the number of states is small, a selection of a varied states differently positioned in the global economic system and committed to economic restructuring over a comparable time frame provides a basis for conceptual coherence. Given that one of the outcomes of this process across the case states is the increasing permeability of national markets, the focus on the state helps open up questions for further research on causality in the global system in interesting ways as well.

### **3:4 Selected features of the case studies**

The three states provide a set of comparisons through very clear programmes of restructuring. Moreover, they each experienced very distinct economic crisis that forced attention to issues of politics and reform dramatically. They were also committed to accelerating their economic internationalisation in response to a range of national and global exigencies. A consideration of a number of political, economic and social features helps ground the comparisons.

The three countries have at different times been faced with acute economic problems that

triggered the concern of bodies such as the International Monetary Fund (Malaysia in 1981 and 1996, New Zealand in 1984, and Japan in 1995 and 1997). Such an environment was perceived to be crucial to the commencement of radical reform agendas by policy makers. It is argued that such environments enabled policy makers within state institutions to promote economic reforms with a greater degree of autonomy than may have been possible previously. This helped develop the theme of contestation and depolitisation.

The development of a framework for a comparative enquiry has been made easier by the fact that these countries have attracted substantial research scrutiny. There already exists a vast body of literature on labour regulation, economic reform and economic policy. This literature demonstrated the strong but shifting commitments towards restructuring, contestation and re-negotiation between state and other agencies. A comparative inquiry based on such differentially positioned economies that were products of sharply differing histories provided a theoretical anchor to counter deterministic and neo-liberal accounts of the development and repositioning of the three economies.

The institutional setting through which states have sought to recast social and employment relationships could be gleaned from the public sector in these countries. Firstly, the public sector in all the countries have been major sites of contestation between organised labour and the state, resulting in a variable pattern of re-radicalisation, acquiescence and re-regulation. In all the cases, public sector restructuring has proceeded haphazardly, characterised often by inconsistency in the policy environment and policy reversals periodically. Contests and negotiations that arose from the political framework provided strong foundations from which the state regulation of labour discourse could be levered open.

Secondly, the changing contours of national corporatisms (Bagnioni and Crouch, 1991; Boyer, 1995), that were shaped by specific historical political exigencies also provided levers for opening up questions about labour regulation regime transformations. Social settlements were exposed to fundamental re-negotiation in each of the case studies, raising questions about the historical specificity of such settlements, and their relationships with economic policy frameworks associated with economic globalisation. Moreover, transformations within the state also helped throw light on the specificity and generality of national settlements as basis for labour regulation. The ascendancy of neo-liberalism coincided with the opening up of social settlements to re-negotiation.

Neo-liberalism (was) at once directed towards disarticulating the old formation which was in crisis, that is towards deconstructing corporatism and the Keynesian welfare state, and towards the formation of a new configuration (Overbeek, 1990:180).



A changed legislative framework, labour market deregulation, the changing nature of work, the growth of the service sector, are some factors that may help inform the role of agents in this renegotiation.

In comparative industrial relations, the institutions of collective bargaining illustrate the ways in which states have subordinated labour, and shaped accommodation at workplaces. Moreover, these institutions impose limits upon labour and capital concurrently. By contrasting such core industrial relations processes, the thesis was able to draw out the emerging incongruencies that resulted from the mismatch between 'nationally bounded labour markets' and highly 'globalised capital markets'. Because of the incongruence, both labour and capital's organised relationships were undergoing metamorphosis even when the industrial relations framework itself propelled them in that direction. By focussing on this, another avenue was opened for viewing changes in state strategies and labour's responses. States connived to expand the sphere of reproduction while narrowing the sites for contestation. Economic globalisation appeared to promote these contradictory tendencies, resulting in 'disorganising the working classes' overall (Offe, 1996). Disorganisation has taken historically specific forms, ranging from ethnic segmentation in Malaysia, to legislative decollectivisation in New Zealand and compartmentalisation of production itself both nationally as well as internationally in the case of Japan. The purpose is to draw out the 'underlying generative mechanisms' for transformation of regimes of labour regulation, rather than discuss the comparative industrial relations trends *per se*.

Frenkel (ed. 1993) examines political structures and developmental strategies for comparison of unionism in the Asia-Pacific region. This is helpful in developing a comparative framework. Systems of political representation, and centralisation and decentralisation of power affected state strategies and responses. Moreover, developmental strategies were also shaped by the systems of representations and considerations that had to do with how power was exercised. These are broadly summarised in Table 1.

**Table 1: Political institutions and developmental approaches in mid 1990s**

<b>Country</b>	<b>Power: Centralisation/ Concentration</b>	<b>System of representation</b>	<b>Political Stability</b>	<b>Development Strategy</b>
Malaysia	Medium dispersed	Federal, multi- party, single party predominant, evidence of the emergence of popular opposition by the end of 1997	High, some regional governments pose challenge to central authority	Strengthen economic position of Malays; export manufactured goods, state-led wealth redistribution goals
New Zealand	Medium dispersed	Unitary, mainly two party	High, but relatively weak coalition governments since 1992	Rapidly changing from protected, regulated welfare state to a radically deregulated market economy
Japan	High, concentrated	Multi-party, predominant coalition	High, but weak coalition government since 1992	Changing from protected, heavily domestic oriented economy to an internationalise d one

Table 1 notes the medium to dispersed levels of centralisation of power in New Zealand and Malaysia, compared with a much higher level of concentration in the case of Japan. In spite of these, each enjoyed high levels of political stability over the past two decades. This was also true during the most recent economic crisis in Malaysia and Japan. However, in all three countries governments increasingly came to be formed through broad multi-party coalitions.

This was especially true in the 1990s. In contrast, the 1980s were a period in which government's were dominated by single parties in all the countries. All the countries were dealing with policy reforms connected with economic internationalisation in a variety of ways. Kuruvilla and Venkatraman (1996: 12-13) examine the relations between industrial relations regimes and industrialisation policy in Asia; demonstrating a link between industrialisation strategies and chosen modes of integration into the global economic system. The relationships between political structures and developmental strategies are discussed in detail in individual chapters. Their utility lies in the fact that they facilitate explanations of why different states approach economic restructuring with varying levels of commitment. The questions raised above demonstrate the renewed importance for understanding how economic policies are formulated in the first place. Arguably, comparisons of the different states have shown that economic restructuring has generally continued in spite of regime changes. It is therefore proposed that the context of economic policy formulation deserves wider attention as some of the explanations for the centrality of regulation of labour to the overall process of restructuring are clearly located in this sphere. If there is a convergence of economic policy criteria during a period of accelerated economic internationalisation, how are the variabilities in modes of labour regulation and outcomes in labour markets to be explained? This is a central problem for this research.

### **3:5 Periodising the country observations**

Given the fact that a range of domestic and international exigencies have affected the patterns of economic internationalisation in these countries, it was important to pay attention to specific periods for which observations and data were presented. By paying particular attention to periodisation, two concerns were redressed. Firstly, by periodising the country observations, I was able to mark out periods in which significant associations between specific domestic and international factors could be observed. This allowed me to identify some general approaches to economic reform more systematically. A clear periodisation was also necessary in order to assess the causal weighting ascribed to different factors. Furthermore, by clearly periodising the observations, I was able to contextualise the historical observations by references to the broader international factors. Each of the country chapters therefore commences by looking at the broad features and approaches to economic development in the post-war decades, leading up to the early 1970s. During this period, the predominant developmental approaches were shaped by quite different national specificities (such as post-war reconstruction in Japan, and post-colonial industrialisation in Malaysia and New Zealand). But the developmental approaches were also

influenced by an international context characterised by the term 'new international division of labour' which provided impetus and incentives for transnationalisation of industry and the implementation of international trade friendly developmental policies. The second part of the observations are focussed upon the 1970s. During this decade, these three countries were exposed to a common set of international economic pressures that were at least in part related to the oil crises. The third part of the observations are focussed more specifically upon the 1980s. During this period, the countries experienced a significant shift in the economic policy orientation. The final part of the observations are focussed on developments between 1990 and the end of 1996. Preliminary remarks and comments are made about some significant developments in 1997 and 1998. While a clinical periodisation has been difficult, the time periods for which observations are presented help us better understand some of the specific and the general economic policy shifts and changes. However, the framework for periodising the observations is prefaced with a cautionary note. There were changes and shifts occurring in all the countries across overlapping time frames and which may have not been affected by similar exigencies or factors. These are brought out in the in the country discussions.

### **3:6 Conclusion**

This chapter has argued that the historical-comparative approach is most helpful in exploring the complex and contingent relationships between state, modes of labour regulation and economic globalisation. With adequate safeguards to ensure comparability, validity and desired levels of generality, the countries selected can throw light on the interconnectedness between these variables. At the same, time, the study of economic globalisation is a far broader project that attempted here. What is required is a more ambitious project where the framework elaborated here could be applied more broadly if the theoretically desirable levels of generality are to be attained. Given the variability of the three states, interesting and historically specific accounts of restructuring can be studied in an exploratory manner. The next three chapters outline the country experiences. The chapters that follow try to assess and separate the particular from the general.

### Endnotes: Chapter Three

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1. The 'regulation approach' is commonly attributed to the work on Aglietta (1979) who observes regime changes in a predominantly US context. This approach has since been applied to the European context in the works of a number of 'regulation school' authors.
2. Boyer and Drache argue that a political transformation that the process of economic globalisation creates is the 'displacement of the sites and objects of political struggle for oppositional movements'. The uncertainties and contested 'political spaces thus created suggest that neo-liberal imperatives can be contested both in the social and economic terrain. The forms such contestation will take in specific formations is unclear in this period of profound adjustment' (Boyer and Drache, eds.1996:395).
3. Cross-national studies have already been burdened with the problem of operationalising complex ideas and concepts. Sanders, for example, notes that a basic concept such as the political strength of trade unions is 'a more elusive notion than simple membership since it entails the extraordinarily difficult task of ascertaining the precise extent of unions' formal and informal links with political parties and the extent to which trade union leaders enjoy access to senior party officials (Sanders, 1994: 517). This already complex concept is made even more elusive as a result of transformations in electoral systems in countries such as New Zealand and Japan, growth of trade union internationalism including trade union access to policy making at the international level. These coupled with major transitions within the trade union movement, including creative and new forms of alliances with disorganised labour underscores the fluidity of this concept.
4. It was also clear that in the present period, the demarcations between left and right became less clear and more muddled. See Panitch and Leys eds., 1999.
5. Bonefeld, Brown and Burnham (1995:51) argue that the policy of state austerity in Britain was achieved 'not only through trade union co-option but also, and importantly, by the claim that government's hand was forced by international bankers, and in particular, the IMF'. In practise, however, capital markets do wield pressure upon the political system, not through institutional mechanisms, but mainly through the effect of uncertainties in capital markets upon exchange rate stability. However, real pressure is exerted in cases where multilateral institutional bailouts through the IMF's structural adjustment facilities take place. There is no reason to assume why any of the OECD states can be forever immune from this. Secondly, voluntary agreements between states such as the convergence criteria for a single currency in the EU can also translate into austerity programmes.
6. An example of a new reform agent is the 'transnational technocratic class'. Sklair (1995: 1996) argues that bureaucrats who belong to this class oscillate between national treasuries, multilateral institutions and national and global think tanks.
7. The problem of disciplinary boundaries is examined by Wallerstein (et.al., 1996).

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They outline the state-centric foundations of classical social science and its legacy in the present period. They advance a compelling argument for removing disciplinary barriers. The problems identified in using data drawn from different disciplines in this study would re-affirm some of the thesis advanced in that report.

8. Roots (1993) critically assesses the claims for value-free social sciences and exposed the liberal 19th Century ideal as the value-laden choice of a set of 'good' as the foundational principle of much of social sciences. In the real world, where we assess competing claims for the 'national interest', arising as a result of the nation-states accommodating both a national and global context at the same time, the social sciences are more likely to lend support to one or another claim for the national good.

9. There are a number of implications for theory construction based on this approach. Drawing on the work of Reinhard Bendix, Axtmann concludes 'this is also an argument against a research strategy which is built around ceteris paribus assumptions; rather than downgrade historical variations, Bendix favours an approach which allows for variability and diversity in context. (Theory) thus operates on the assumption of uniqueness and has therefore, of necessity, to downgrade the importance of identifying, for explanatory purposes, cases comparable because of their (shared) structural characteristics' (Axtmann, 1993:70).

## **Chapter Four: Radical restructuring, accelerated internationalisation and labour market-deregulation in New Zealand**

### **4:0 Introduction**

New Zealand has been projected as the 'world model' for structural adjustment (Kelsey, 1995). It is also being marketed by institutions such as the World Bank as the 'best practice' model for other reforming economies. There are three sets of issues that New Zealand story of reform raises. They are, firstly, that a quite unique combination of domestic and global exigencies induced significant pressures upon capital accumulation during the 1980s, which formed the backdrop to the sweeping economic reforms of the 1980s. Secondly, the key effects of these reforms were felt through a reconstitution of state/market relations via a deregulation and a market based re-regulation of labour. Finally, these reforms aided the accelerated internationalisation of its economy. The key problem that this Chapter addresses is how do we interpret the role of organised labour in such a major transition, understand its apparent lack of response during the transition period and its relationship to the external environment.

This chapter is laid out in the following manner. It first examines the socio-historical setting of the radical reform programme of the 1980s and 1990s; emphasising the development of a highly corporatist model of labour regulation during the post-war decades and a re-negotiation of its terms of economic internationalisation in the 1970s. The sections that follow examine the economic and political crises of the 1980s and outline state strategies and policies in relation to these crises. The third section examines how labour market policies featured in these responses and examines the place of labour in these policy transformations. The chapter concludes by drawing attention to the transformations within state institutions and in labour markets that and their association with the accelerated internationalisation of the New Zealand economy.

### **4:1 Background to New Zealand's reform**

New Zealand presents the starkest example of the internationalisation/globalisation among these case studies. In this respect, it serves as the comparator. This is a consequence of the sustained economic restructuring since 1984. This reform agenda emerged from a historic combination of domestic and global exigencies. The objective of this agenda has been to 'transform the very architecture of the state on the foundation of economic rationalism' (Kelly, 1995:334; Easton, ed. 1989; Roper and Rudd, eds.1993; Kelsey, 1995).

New Zealand's colonial and post-colonial economy was horizontally integrated with the

UK and to a lesser extent Australia. It suffered serious challenges when Britain joined the European common market in 1975. Its joining resulted in the ending of preferential access arrangements into the UK market for many of New Zealand's primary exports. This, combined with the impacts of the 1973 oil crises, aggravated its economic problems. The economic crisis that followed had severe consequences for labour. During the 1970s, declining commodity prices for New Zealand's primary products on world markets further stressed the Keynesian "think-big" interventions introduced by the conservative National government in the 1960s and 1970s. But the overall approach of massive state investment remained on course during the long reign by the Nationals throughout the 1970s.

An incoming Labour Government in 1984 began a programme of financial liberalisation and sweeping economic reforms. While ostensibly, this programme was 'engineered' and led by parts of the state bureaucracy, it found support in a small but powerful fragment of the Labour Party cabinet. Given the party's exceptionally close relation with organised labour, it attempted restructuring through a mode of corporatism as exemplified in the Labour Relations Act (LRA) of 1987. The defeat of Labour Government in 1988 provided an opportunity for the National Party-led government to complete the restructuring process, achieved by severing the links between state agencies and organised labour and operationalised through the Employment Contracts Act (ECA) in 1991. This Act completed the deregulation of the labour market and removed the last vestiges of state intervention in these markets.

Organised labour had initially sought accommodation with a reform oriented Labour government. This accommodation was endorsed through the Labour Relations Act in 1987. However, collective bargaining and union membership had already entered into a rapid slide. In a little less than a decade, one of the best organised workforces in the world had been reduced to a fringe pressure group, with little political clout in a deeply fragmented Labour Party that was to be condemned to the opposition benches for another decade. There was little comfort in judicial redress to the employer onslaught. However, electoral reforms that introduced a proportional representation system gave smaller parties some leverage in parliament, raising the possibility that the special concerns of organised labour could be represented and possibly defended. In spite of this organised labour was to remain devoid of direct political leverage. Organised labour has come to accept the dilemmas of trade liberalisation and reform, belatedly accepting that peak tripartite social settlements are a thing of the past. It has also come to accept the value of local, workplace and shopfloor based responses, an approach that had been



substantially devalued during the corporatist era.

The New Zealand economy was internationalised quite rapidly as a result of the post-1984 reforms. Most of former state enterprises have been privatised, with transfers from one group of owners to others becoming common. Its financial sector has become one of the most open in the world. Inflation has been contained and unemployment significantly reduced with gains in jobs and incomes occurring in the newly competitive sectors (OECD, 1995). At the other end, with the collapse of the welfare state, 'social exclusion', ethnic fragmentation of the labour markets and open poverty have induced new political challenges. Organised labour has been isolated, and is largely incapable of influencing the social policy agenda.

Although based on the lines of the two party Westminster system, the party political landscape has become much more varied over the past decade. Since the end of the Second World War, Labour and National parties have dominated New Zealand's political landscape. However, by late 1996, this had already changed. The electoral disillusionment with Labour's sponsorship of sweeping economic reforms precipitated the rise of new political groupings. The adoption of a multi-member proportional representation system of voting under which elections were held in 1997 broadened the parliamentary representation of new political groupings. It may have also brought to an end the single party governments that emerge from the dominant two party system. In a decade of persistent setbacks, organised labour's one significant victory was the adoption of the new electoral system (CTU, 1995:3). However, this development is unlikely to lead to radical policy shifts, which would indicate a return to an organised labour-led agenda in the near future. While new forms of political contestation have developed, these have not involved trade unions and related labour organisations.

It is noteworthy that in New Zealand, it was the Labour Party which launched the process of radical economic re-structuring in the mid-1980s, leading to its gradual distantiation from, and a weakening of organised labour and the eventual demise of corporatism (Holland and Boston, eds. 1990; Jesson, 1989).<sup>1</sup> The context in which it launched this programme is also important. Re-structuring on the scale supported by the Fourth Labour Government was not part of its election manifesto in early 1980's. To that extent it demonstrated a lack of electoral support for the project. However, by the time of its 1984 electoral victory, disillusionment with the quality and delivery of public services had become widespread. However, the reform agenda had been amply elaborated in a publication by then Labour backbencher, Roger Douglas in 1980. The Finance Minister's views complemented neatly those of the policy-making team within the

Treasury that he inherited, which was overtly committed to the reform process.<sup>2</sup> As the finance Minister, Douglas strongly pushed the restructuring agenda onto the centre stage within the Labour Cabinet in a relatively short period, moving the party as a whole further right in the process (Douglas, 1980).<sup>3</sup> Finally, the economy that Labour inherited at the time was in its severest crisis since the great depression (Kelsey, 1993; 1995).

Labour's restructuring agenda followed in the wake of almost a decade of National's 'think-big' state-led development strategies. It was clear that by the time of Labour's electoral victory public attitudes and more importantly perceptions within the government bureaucracy about the organisation of state and the economy had shifted dramatically. Signalling Labour's intention to proceed with restructuring, Douglas declared 'we cannot protect everyone from the adverse short-run impact of what has to be done' (IMF, Summary of Proceedings, 1984: 216-19). The Labour-led restructuring signalled the end at an era of corporatist politics and the demise of a Keynesian consensus in New Zealand. It was replaced by a developmental ideology that was informed in the main by managerialism, public choice and agency theories. When public opinion shifted to favour the reforms, it became much more difficult for pressure groups including organised labour to influence policy reversals. Further, the question of policy reversals in New Zealand did not arise, as the National government that followed Labour was even more determined to complete the restructuring process. The new National Government of 1990 pushed forward the restructuring agenda with a degree of urgency rarely seen in Western social democracies.<sup>4</sup> Political changes fed the restructuring process, transforming New Zealand in a relatively short time span of some 15 years into one of the most open economies in the region. In this process almost no sector of the state, or its economy and the relations between the two were left unchanged. But to read-off the restructuring process in New Zealand in terms of the shifting contours of electoral politics denies the role of non-party political agencies.

Radical reform in New Zealand coincided with a clear ideological shift in the parliamentary system to the right. A blurring of the differences between the two dominant parties has expressed itself clearly in the 1990s - making the party political struggle to dominate the economic policy formulation apparatus less electorally controversial. As a result, restructuring and economic globalisation in New Zealand brings to the fore issues about the hegemony of developmental ideologies. This raises the question, how do successive governments implement and sustain policy options that visibly disadvantage labour? The massive defeat of Labour in 1990 and an unworkable majority for the National Party in the 1997 general elections exemplify

the popular discontent with New Zealand's party political system. Legitimation via the traditional parliamentary instruments appears to have run out of steam. We thus have to look elsewhere to understand how such a sweeping anti-labour reforms have been sustained within the framework of a parliamentary democracy.

The legitimisation puzzle is further complicated when the profound dislocations in New Zealand's public sector are analysed. There was extensive downsizing of the public/state sector. The introduction of contract work, part and flexi-work, dismantling of superannuation rights and dislodging of employment security has created a highly vulnerable and insecure public sector workforce. Arguably such dislocations could lead to a radicalisation of employees in public sector and a consequent weakening of the state. When the battle lines between the state and its own employees are drawn so sharply, the problem of legitimation is compounded. Similarly, the dismantling of the welfare state could have led to the re-emergence of strong radical working class politics. However, such prospects seem unlikely. I return to this paradox later in this chapter.

New Zealand readily reacted to changes in the global economic system since the 1970's and met its obligations as part of the Cairns Group and a member of the GATT framework. But the restructuring that resulted from commitments under these was political. Both its heavy protection and corporatist settlements with organised labour had acted as disincentives to investment. Structural weaknesses in its economy that resulted from the heavy dependence of its premier export industries upon state support had ensured that its markets were politically regulated. Thus the restructuring of state/market relations in New Zealand was a deeply political programme. To understand these, we need to examine the historical-economic setting in which the New Zealand 'experiment' occurred.

Through this, I draw out the policy continuities over a longer time frame. The thesis argues that the contradictory demands of ensuring domestic political and economic stability, and generating conditions favourable to capital accumulation have brought to the forefront a systemic tendency of depoliticisation of macroeconomic policy and economic management by different governments. The depoliticisation of economic policy has made it easier for successive governments to implement reform programmes without being derailed by class and interest group pressures. The concern of policy makers has been not so much with ensuring continuities, but creatively anchoring reform policies in ways that shield them from future changes in Government. The prevention of policy oscillation thus appears to have become one of the

primary features of economic reform since 1984.

#### **4:2 Socioeconomic transformations in the post-war period**

As a British colonial economy, 'New Zealand developed as a colonial farm, partially funded through British investors in order to supply the UK consumer with relatively low cost, high quality foodstuffs and fibres' (Britton, 1991:5). Its early economic activities were, like those of other colonies, tied to the needs of the colonial economic system which came with a privileged market access (Roper and Rudd eds., 1993:7-11). It was incorporated into this system on the basis of both its 'environmental advantages as well as its political ties' (Britton, 1991:4). During the post-war decades, agricultural and industrial development that was premised upon favourable terms of trade with the United Kingdom mainly supported the strengthening of a corporatist regulatory framework. This framework came to be challenged in the early 1970s, when the favourable trade links were exposed to serious pressures. Between the end of the war, and at least until the mid 1970s, the New Zealand economy had remained a relatively closed one (OECD, 1993).

Over the past fifty years the New Zealand economy has been transformed from one that gave it the highest standard of living in the world post-second world war years to one that has ranked between 20 and 25 in the Human Development Index over the past decade. This has coincided with a significant 'retreat' of the welfare state (Kelsey, 1993) and a transformation from a high wage to a low wage economy by OECD standards (OECD, 1993). Epitomising its changing position in the global economy has been the transition from a primary product exporter to a base for a range of manufactured products and services and the development of substantially diversified trade relations with the Asia/Pacific region.

Since the depression of the 1930s successive governments have sought to stabilise income from the export sector and diversify the economy through an import substitution strategy. This was based on an extensive programme of state intervention and the encouragement of strategically important foreign investment in mercantile services, food processing, transportation and manufacturing branch plants. A last major extension of state intervention occurred in the late 1970s and early 80s under the National government. New Zealand had historically relied 'heavily on relatively unprocessed primary based commodities and a single export destination, the UK' (Britton, 1991:5). The entry of the UK into the European Community ended New Zealand's privileged access to the UK market. This subsequently provided the impetus for export

diversification and processing based on extensive state intervention and overseas borrowing in the 1970s.

Protected export markets, for principal export commodities such as dairy products, wool, meat and fruits had meant that productivity increases generally lagged behind that of other OECD countries (OECD, 1993: 50-55). In the crucial decade before the commencement of the restructuring process, the New Zealand economy grew by a paltry 0.2 percent compared with 1.8 percent OECD average (OECD, 1993 and 1994). In the same period, its GDP per capita rose by a similar 0.2 percent. By the 1970s, New Zealand was one of the most regulated economies in the OECD (Kelly, 1995; Britton, 1991; OECD, 1993). Noting this, Britton observed that

by the 1970s the country was one of the most protected and state directed in the OECD. Even after a decade of slow reductions in state regulation, there were still over 400 acts of Parliament and 1000 associated regulations which had economic effects in 1984, along with \$NZ 2 billion of producer subsidies - representing 6 percent of GDP (Britton, 1991:4).

The coming to power of the Labour Government in 1984 marked the beginning of a new phase of reform which was to be characterised by the rapid removal of state intervention from the economic sphere, and restructured micro-economic environment so that enterprises and industries became more open to international competition. The sequence of the reforms took account of political considerations. These reforms began by the deregulation of the capital markets. Complete labour market deregulation was not to follow until some six years later.

The New Zealand pattern of reform is also complicated by renewed pressures by indigenous Maori communities for control over natural resources, recognition of indigenous rights and attempts to achieve a settlement of the problems associated with the colonial period. Tensions between the indigenous Maori communities and the predominant white community have intensified in the 1990s and re-politicised economic policy formulation with reference to the mediation of ethnic interests (Awatere, 1993).<sup>5</sup>

An immigration policy closely linked with labour market considerations has seen the inflow of skilled, professional and business investors mainly from the Asian region over the past decade. This has complemented the traditional Pacific Islander migration flows that have given New Zealand a very ethnically diversified population. Ethnically segmented labour markets, and in particular a much higher proportion of unemployment among the Maori and Pacific Islander communities periodically unsettles New Zealand's social stability through worsening race relations: a trend that is likely to be exacerbated as a result of further internationalisation of its economy. Immigration has stabilised the loss of skills to mainly Australia and the US - a process

that was greatly speeded up as a result of the lay-offs, income declines and employment insecurity that came to be associated with the restructuring process of the 1980s. Moreover, restructuring has unmasked ethnic and racial privileges and inequalities that in an era of full employment and welfarism had remained less visible (Kelsey, 1993). Both the structural and social features of this transformation are relevant to our analysis of the changing modes of labour regulation in New Zealand.

#### **4:3 The socio-economic context of restructuring in the 1980s**

It is important to situate New Zealand's restructuring in its historical and political setting. The Labour Party formed its first government in the 1980s in the midst of a severe recession (Bollard and Buckle, 1987; Holland and Boston, eds. 1990) and when the economy displayed 'one of the most lacklustre performances among countries in the developed world' (The Treasury, 1984:103). 'The considerable increase in unemployment from 20,000 in 1978 to over 80,000 by the end of 1983' turned public opinion away from government (The Treasury, 1987:271). However, economic reforms did not have immediate impacts upon the levels of open unemployment, as by 1993 this had reached 211,000 (Statistics New Zealand, 1995:34).

A growing open unemployment rate placed three sets of pressures upon the state in the mid-1980s. Firstly, it burdened an already over-stretched welfare state amidst its deepest recession in the post-war era. Further, it brought into the open the ethnically segmented nature of labour markets and the concentration of unemployment in Maori and Pacific Islander communities. Unemployment among the Maori communities, for example, was as high as 25 percent by 1990. Thirdly, it gave the state a powerful popular rationale to support its restructuring agenda, and placate the unemployed at the same time.

The mid 1980s data of economic performance:

showed that over the ten years to 1983, real GDP grew by less than half the average for all OECD countries. For the same period, prices increased by nearly one and half times the OECD average, while the registered unemployment rate increased markedly compared with other OECD countries. This relatively poor employment and growth performance occurred despite a dramatic increase in external borrowing (The Treasury, 1984: 104).

A deterioration of New Zealand's credit rating epitomised the extent of the debt problem. This was to become another selling point for the reforms. While New Zealand suffered a deterioration in its credit ranking in mid-1980s, it was far from the Third World type of debt case that it was

made out to be (NZ Business Roundtable, 1990). However, this is not to argue that it did not face a critical debt problem. Its external debts had grown from \$863 million (8.5 percent of GDP) in 1974/5 to \$12 billion (31 percent of GDP) by 1984/5. Interests payments alone on its total debt accounted for 6.7 percent of GDP in the same year (OECD, 1994; 1995). The expansion in debt servicing costs from 10.8 percent of net government expenditure in 1983/4 to 14.4 percent in 1984/5 demonstrated the growing pressures on government revenues in a context of growing open unemployment.

Highlighting its impact on government, Clark and Williams (1995: 36) noted that:

By 1983 it had become obvious that the Prime Minister had begun to lose the support of some of his key colleagues. His unilateral decision to call a snap election proved to be a disaster for the Government. The election found Labour on the treasury benches for the first time since 1972. Despite warnings from the Reserve Bank and the Treasury, Sir Robert Muldoon had consistently refused to act, and \$US110 moved offshore the day after the election. By 31 July 1984, the Auckland Star reported that half a billion dollars had left the country and that in the absence of a massive devaluation, the world might see the sight of a (developed) country going bankrupt.

A stabilisation programme thus moved high on the new Labour Government's agenda immediately following its electoral victory. It began with a twenty- percent devaluation. These new economic circumstances rather than any well thought out electoral manifesto drove structural reforms. These brought home the extent of insularity in New Zealand's economy, even though it had historically been a trading nation and had begun to make adjustments at the time of the entry of the UK into the European single market. It also exposed the weak foundations of its social democratic and corporatist consensus.

The 1984 crisis also marked a fundamental shift in the system of Government in New Zealand. Following the post-election fiscal crisis of the state, the Treasury and the Reserve Bank of New Zealand were able to dominate economic policy with relative ease. One important consequence of the post-election devaluation as part of a stabilisation measure was the effect it had on the new Labour government itself.

These decisions were made before the cabinet had been selected or the government sworn in; they occurred within the power vacuum. They were not Labour Party policy; they were Reserve Bank and Treasury policy. Control had passed not to the elected members of the Labour Government but to their advisers in the Reserve Bank and the Treasury. The pattern continued in the months that followed, as the government rapidly passed a series of radical measures: the abolition of exchange controls, the deregulation of finance, abolition of subsidies and incentives, the floating of the dollar .... A coup had

occurred, with power passing to a small group of cabinet ministers and top-level bureaucrats (Jesson, 1989:4).

In this respect, it is argued that structural reforms that characterise states in the contemporary era also mark a significant change in governance and in public policy formulation; highlighting the ascendancy of power of 'elite technocrats' (Kelly, 1995) both in governments and policy making units within political parties.

While 1984 marks the watershed year, there were threads of continuity with reforms instigated in the last years of the National government. Under both political regimes, fundamental policy changes were initiated in response to a deepening economic crisis originating from contradictions that arose as a result of the global recession, decades of protectionism, and shifts in the nature of international competition and organisation of production (Britton, 1991:5; Duncan, Lattimore and Bollard, 1992). The forms in which such economic crisis present themselves are often political and thus state responses have not only been via economic policy instruments, but also through a range of social and public policy measures.

There is a common thread of argument that exceptionally high unemployment, balance of payment problems and an unsustainable external debt were the cause of structural reforms. This line of argument (Kelsey, 1993; Roper and Rudd eds. 1992) needs qualification. These factors may have been the symptoms that triggered Governments to act, although restructuring had slowly been coming to the centre stage in New Zealand from the late 1960s onwards. The National government's 'think-big' strategy in the 1970s was a last ditch effort by New Zealand to prolong the corporatist compromise. But the Labour Government came to realise that as a trading nation, the promotion of a state supported national capitalism would create collisions with international capital. The promotion of a national capitalist class propped up by extensive state support and the exclusion of such support to capital generally had begun to adversely affect employment creation and economic growth. However, in the internationalised markets, capital can severely discipline insulated economies as indeed the Labour Government learned in its first few days of office in 1984 (*The Economist*, 1995:5-8).

The OECD lists the following problems that the incoming Labour Government inherited in 1984. They were: a fiscal deficit of 9 percent of GDP, a growing debt problem, a persistent current external deficit, which was complicating overseas debt management and putting pressure on the exchange rate; an overvalued exchange rate and a run on the New Zealand dollar that looked likely to exhaust the foreign exchange reserves; a lax monetary policy which, because



of the unwillingness to accept higher interest rates, had led to excessive monetary growth. It further noted that a heavy reliance on interventionist policies had inhibited the flow of labour and capital to their most productive uses (OECD, 1985:11). These form the backdrop to the stabilisation regime that the incoming Labour Government put in place, to be followed by a comprehensive restructuring programme.

There was a significant political backdrop to the embrace of deregulation policies by the Labour Government of 1984. The electoral defeat of the Bill Rowling Labour government in 1975 had already raised the electoral stakes of the 'neo-realists' within the Labour Party in the early 1980's. The compact with organised labour and commitment to the welfare state were no longer at the forefront of the Labour Party policies. This was also aided by the general disillusionment with 'Keynesian policies' within the Treasury (Denemark, 1990:282).

Labour regulation was the pivot in which the restructuring policies turned. Walsh (1989: 165-69) argued that industrial relations reform under the fourth Labour Government, and the setting back of radical reform under the Labour Relations Act represented a 'family fight'. However, by 1987, the labour market reform programme was only beginning to take effect. The programme was comprehensive and would eventually lead to the near complete demise of corporatist politics. This was clearly much more than a 'family fight'.

This study of restructuring with its focus on labour regulation and the public sector departs from the main body of industrial relations literature on New Zealand in several ways. It places the reforms and restructuring in their broader political and economic setting. This setting is both determined by sets of New Zealand centred factors but also conditioned by global pressures. Factors from both these environments inform this analysis of New Zealand's radical restructuring in the 1980s and the 1990s.

#### **4:4 The restructuring agenda of the 1980s**

The extent and pace of:

Systemic economic change in New Zealand during the reform years were breathtaking. With only some exaggeration, many observers compare the thorough-going program of market liberalisation, deregulation, corporatisation and privatisation to the dismantling of communism in Eastern Europe (Nagel, 1994:5).

The 'transformational' nature of the reforms implied that linear or incremental strategies had to be abandoned.

In a blitzkrieg of change, financial and foreign exchange markets were

liberalised, factor and product markets were largely deregulated, incentives and supports were removed,...Supply side thinking replaced demand emphasis. Monetarist techniques supplanted fiscal weapons. Elegant theoretical constructs relating to public choice, managerialism and agency theory crowded out administrative wisdom... New Zealand embarked on the most radical programme of monetarist market-oriented structural adjustment of any developed country (Kelly, 1995:335).

OECD (1995) lists the key policy transformations in detail. Restructuring relied upon extensive legislative overhaul that affected employment in all sectors of the economy. Complex re-organisation of work in enterprises located in protected and public sectors followed on the back of legal reform. The goals and criteria for attaining competitiveness induced substantial changes in management practices and in the strategies of employee organisations including trade unions. Structural reforms sought to secure the primacy of market forces; of capital directly regulating the factors and social relations of production. This transition was a fundamental pre-requisite for the further integration of the New Zealand economy into the global system. However, structural reforms can also retard such integration. New Zealand's early reforms disadvantaged large segments of its population. They gave rise to sporadic, but disorganised confrontations with the state and facilitated electoral challenges to the party in government. The fourth Labour Government was to pay a price for initiating such reforms in a highly regulated environment. It was to be denied control of government for at least another decade.

The crucial explanation about the form and direction of reforms was that they were presented as a technical solution to economic and thus political problems. This de-politicisation of economic policy making in New Zealand played an important role in focussing and protecting the reforms from pressure group politics. De-politicisation was to take various forms. But primarily it involved the subcontracting of fundamental economic policy formation to selected, and well-shielded state agencies such as the Treasury and the Reserve Bank. In this manner fundamental political choices could be presented as technical economic choices.

A feeble attempt by Labour at re-kindling corporatism was abandoned early. This attempt had close parallels with the UK experience where the:

politics of incorporation meant that austerity had to be endorsed by the trade unions. The incorporation of the trade unions (amounts) to an attempt at depoliticising the state from the social consequences of austerity. However, the legitimisation of austerity through incorporation of trade unions (is) precarious (Bonefeld et. al. 1995: 49-50).

A restructuring of organised labour and state relations followed quite naturally in the wake of the new policy environment. The process was associated with the reification of what was at best

an economic ideology into technical questions. This has been essential in ensuring the implementation and sustainability of structural reforms.

#### **4:5 Economic reforms and accelerated internationalisation in the 1980s**

While it is difficult to conclusively relate structural reforms to the level of internationalisation in any economy, some selective yardsticks help illustrate the trend of internationalisation. In the first instance, the liberalisation of foreign exchange markets led to increased export of New Zealand capital offshore. Secondly, some import substitution industries 'badly affected by the combination of reduced protection and high interest rates relocated their production to offshore sites offering cheaper material inputs and labour'. As a consequence, financial sector reforms help explain the steady rise 'in overseas interests in the New Zealand economy'. In this regard, between 1974-1978, the Overseas Investments Commission had approved 936 'overseas companies' commencing business in New Zealand. The period 1984-1988 saw a significant increase in this figure to 3,588 (Britton, 1991:6-9). Ninety percent of New Zealand's banking industry were owned by foreign banks in 1995 (Council of Trade Unions, 1995: 9), which according to The Economist (1995: 30-45) was the most internationalised of sectors.

The impact of restructuring on trading patterns product differentiation and shifting export priorities was also clearly visible.

New Zealand products are found in some 40 countries, with six out of ten top markets located in the Asian region and accounting for almost 35 % of exports. By contrast, the United Kingdom in 1992 took 6.5% of our exports; in 1963 that market accounted for 53%. Similarly, Australia, which took 4% in 1960, absorbed 19.3% of exports in 1992 (Clark and Williams, 1995: 23).<sup>6</sup>

These trends have meant that ownership of industries diversified with considerably less New Zealand ownership. The differentiated ownership on the backs of the deregulated environment resulted in more aggressive lobbying strategies of corporate interest groups, particularly the Business Roundtable. The Business Roundtable is a closed, by-invitation only club dominated by the principal executives of some of the largest corporations in New Zealand. Its ascendancy as a pressure group was particularly noteworthy. This coincided with a parallel decline in the role and influence of the New Zealand Employer's Federation, which had developed during the corporatist era.

Internationalisation had two other key impacts. It resulted in an increase in the number of overseas trained or based corporate managers moving to New Zealand. This was a relatively

new development which came to be widespread. Secondly, rapid internationalisation was also achieved through equity take-overs by foreign capital. This had the result of diluting the presence and influence of New Zealander corporate managers over labour market policies. These were significant transformations although the most fundamental change was not in financial sector regulations; it was in the area of labour market policy and practice.

#### **4:6 Reform of the labour regulation regime: 1984-1992**

New Zealand, for the best part of the past Century was characterised by a degree of continuity in its regulatory framework in the industrial relations arena. The source of this stability was the Industrial Conciliation and Arbitration Act of 1894 (ICA Act), which established a complex system of compulsory arbitration and conciliation, establishing the basis thereby, for a highly regulationist state. Interestingly, the ICA Act followed the great Maritime Strike of 1890 in which workers and a number of newly set-up unions were delivered a crushing blow by the state. The wastefulness and disruptive nature of strikes deeply impressed upon the newly appointed Minister of Labour, William Pember Reeves to re-look at state, labour and employer relations afresh, resulting in the ICA Act (Roper and Rudd eds. 1983). Incremental changes to the ICA Act occurred regularly, for example, in 1921 when the arbitration courts were given powers to fix wages related to cost of living. These often led to general wage orders and wage/price and employment trade-offs were often made within the corporatist framework of industrial relations that was derived from this act. In 1931, provisions for compulsory unionism were removed but were reintroduced in 1936. The 1936 changes to the ICA Act also supported the development of national unions more generally. A preference clause for unionists in Arbitration Court awards made union exclusion less attractive for employees in organised sectors of employment, giving New Zealand exceptionally high levels of union density until 1991 (Brooks, 1995; Hince and Harbridge, 1994).

Boxall and Deeks (1993: 299) label the ICA Act as an attempt:

to create a system that would deliver statutory recognition and guaranteed dispute settlement to the trade unions and industrial relations stability to employers. For the government, the system was designed to facilitate national economic development without socially disruptive strike activity. In retrospect, the statute can be regarded as one of the earliest attempts in the world to enshrine a pluralist ideology in labour law, and encourage the resolution of industrial disputes through rational debate rather than demonstration of bargaining power.

Consequently, New Zealand's labour regulation provisions were corporatist in intent and

practice. In the post-war era of full employment, these arrangements served the key interest groups well, and provided a tier of consultation and policy making that aided the development of the welfare state (Boston 1995: 275-7).

Nowhere was the stabilising influence of the industrial relations system felt more heavily than in the area of wage fixing. The ICA Act nurtured a corporatist state which was Janus like in its operation. Although its wage-fixing jurisdiction was restrictive; the Act was a potent instrument of social policy especially with reference to relativities and comparative wage justice (Kelly, 1995:338). This system granted unions a monopoly bargaining position and provided for compulsory conciliation and arbitration of unresolved disputes.

Legislative changes in the 1980s and the ECA in 1990 were to abruptly bring to an end the long corporatist tradition of industrial relations. Significant changes occurred with the passing of the Industrial Relations Act of 1973 passed by a National Government which recognised that unions and employers had continued to negotiate alongside or above awards in the inflationary post war era. The Act specifically designated disputes of rights from disputes of interests, which in an indirect manner circumscribed the limits of state intervention and regulation (Boxall and Deeks, 1993:300-301).

The next major reform was brought into place by the Labour Government in 1987, through the Labour Relations Act (LRA), providing for the establishment of larger unions with a minimum membership of 1,000 and greater membership accountability within unions. It principally sought to ensure the viability of unions, and transparency in their operations as well as their democratic functioning.<sup>7</sup> It also required that a single set of negotiations cover employment conditions for a group of workers and gave unions the choice between award and agreement coverages. The LRA further empowered parties to bargain across the whole range of issues without any restrictions, granting greater responsibility for settlements and flexibility and removing the responsibilities of the state in this respect (Harbridge, ed. 1989). The general objectives of the LRA were complemented by the passing of the State Sector Act in 1988.

The LRA was a part of a much larger armoury with which the Labour government sought to restructure the New Zealand economy in the 1980s. Since the experiments of 1890s that resulted in progressive labour laws for the era,<sup>8</sup> the 1987 changes marked the next substantial re-look at labour laws and industrial relations processes. The explicit intention of facilitating enterprise bargaining and removing the protective cover of compulsory unionism was not lost of the two national union federations. They were acutely aware that their influences over the

state policy machinery were already under considerable pressure as a result of changes within the state.<sup>9</sup>

The ICA Act and other legislative developments influenced the organisation of unions and employers. A bargaining system that had historically given occupational floor-setting awards engendered the organisation of unions and employers along industry, regional and national lines. Long periods of compulsory unionism ensured that industry unions such as Engineers Union, NZ Distribution Union, Meat Workers Union among others enjoyed high membership. It appeared that these trends were being consolidated in 1987 with the amalgamation of private and public sector federations, (The Federation of Labour and Combined States Unions), resulting in the NZ Council of Trade Unions (NZCTU) with a total membership in excess of 500,000 (Hince and Harbridge, 1994).

Given that the ICA Act required employer registration, the development of employer organisations was along similar lines. A number of regional employers' federations had evolved by the early 1900s and the New Zealand Employers Federation (NZEf) was set up in 1902. By the early 1990s, the NZEF had come to enjoy an employer membership in excess of 10,000 (NZEf, annual reports). The New Zealand Business Roundtable had by that time begun to take over much of the role of employer advocacy in the political system. The Business Roundtable had persistently applied pressure since the early 1980s for a major reform of industrial relations in New Zealand. Significantly, the Business Roundtable, dominated by senior executives of New Zealand's largest corporations, took over the role of actively pushing the agenda of radical labour market and public sector reforms. Given their overbearing influence, such a position was slowly adopted by the Federation itself, though not without resistance from the large numbers of small-scale employers who saw stability under the existing system of centralised bargaining and industrial relations. In fact the NZEF had to employ a major education campaign to win over its small employer membership base to support the reforms.<sup>10</sup>

The LRA had clearly heralded a new industrial relations paradigm deriving its strengths from rational choice and supply-side thinking in economic policy. It also heralded an era in which industrial relations policy was to be increasingly subsumed within economic policy framework. The Act hence triggered a gradual demise of the role of specialised government agencies such as the department of labour in policy formulation, and began to hollow out the corporatist arrangements. These clearly signalled that the underlying class politics was undergoing a reformulation. This was to come to a head with the new National government.

Following the electoral defeat of the Labour Government in 1990, the National Government repealed the LRA in 1991, replacing it with the Employment Contracts Act (ECA). The ECA's key features were,

- a. the scrapping of award system; employment relations would be determined by individual or collective contracts; decentralisation of bargaining to enterprise (or lower) was implied,
- b. membership of workforce organisations would be entirely voluntary and devices such as union preference was prohibited,
- c. the privileged position of unions was abolished; an employee might be represented by any bargaining agent or none at all,
- d. bargaining agents would be recognised by employers of production of authorisation in respect of each employee represented,
- e. the Minister and Department of Labour were excluded from any role in industrial relations processes,
- f. provision of voluntary mediation and adjudication was retained by way of an Employment Tribunal and an Employment Court (Kelly, 1995:341).

The ECA was to fundamentally overhaul the entire system of industrial relations. While the ECA marked a decisive break in New Zealand's system of industrial relations, the underling project of restructuring displayed a high degree of continuity between the Labour government's agenda of the 1980s and that of the Nationals in the early 1990s. The ECA was preceded by complementary legislation. This included revoking Equal Opportunities Act of 1990, thus removing an important restriction in the increasingly deregulated labour market. The government also revoked the Trade Union Education Authority, a union education body based on the Unions Representatives Leave Act of 1986, further reducing the base of union organisation (Hince and Harbridge, 1994).

The ECA provided for the determination and primacy of individual contract of employment, or individually mandated collective contracts. Individual contracts of employment readily facilitated enterprise unionism and the decentralisation of collective bargaining. Compulsory unionism and union privileges were ended, replacing unions with bargaining agents who needed the sole authorisation of individual employees. The ECA excluded the Department of Labour from any role in the industrial relations processes, although it retained provisions for mediation via the Employment Tribunal and the Employment Court, which provided some relief to unions (Hince and Harbridge, 1994). The ECA made no reference to trade unions and its use of the term

bargaining agents was unprecedented. Moreover, the one reference to unions (Section 185:1) was to ensure the re-registration of unions under the Incorporated Societies Act of 1908.

Quite clearly, the overriding mission of the ECA was to create an 'efficient, disciplined and internationally competitive labour market' which required that interventionist labour laws be rescinded. These changes were crucial for the completion of the structural reform agenda. Capital markets had already been deregulated as early as 1984. By 1991, there had been marginal improvements in the levels of employment. Policy makers felt that any halfway measure in labour market deregulation could threaten the entire reform process. Significantly, the ECA was not subject to negotiation in either the parliamentary process or the industrial relations machinery and was pushed through parliament with little advance warning (Grills, 1994:87). In this manner, economic restructuring came to be associated with anti-democratic sentiments.

By design, the ECA sought to 'disorganise organised labour' resulting in differentiating and segmenting labour markets into competitive and non-competitive sectors. It had no complementary social policy through which fallouts could be cushioned. By extrapolation, it sought to dismember the political influence of organised labour. The ECA had far-reaching consequences not only for the labour market but also more broadly. Rigidities in the labour markets began to explode readily. Union coverage collapsed from by roughly 200,000 within the first two years of the Act (Hince and Harbridge, 1994:7). Collective bargaining similarly collapsed (Harbridge and Kiely, 1995; Harbridge et.al. 1996). But the acquiescence and marginalisation of organised labour was not derived solely by the radical changes in the regulatory environment. Employment security was devalued so that labour experienced increased vulnerability at the individual as well as at a collective level. For this, a discussion of the sweeping reforms of New Zealand's public sector is relevant.

#### **4:7 Public sector reforms and the enhanced vulnerability of labour after 1988**

By the mid-1990s, New Zealand had again become the International Monetary Fund's and the World Bank's model for reforming states (The Economist, 1995). World Bank financed technical and ministerial missions from Latin American, Caribbean, South Pacific and Scandinavian Europe have visited the country recently seeking to draw lessons for reform.<sup>11</sup> One element behind this popularity was the radical overhaul of the public sector.

Public sector restructuring preceded other structural reforms including labour market deregulation. The State Services Act of 1988 was introduced in the mid-term of the Fourth



Labour government. But this did not mean that union opposition was non-existent.<sup>12</sup> What happened instead was that the traditional levers of union access to government policy were transformed. Public Sector restructuring was brought to the centre stage through the Treasury's 1984 'Economic Management' report, prepared as a brief for the incoming Labour Government (The Treasury, 1984). The period of the Fourth Labour government saw the final ascendancy of the Treasury over other government departments as the principal source of major economic policy advice. This was to eventually change also the nature of parliamentary democracy in New Zealand; as a government with a simple parliamentary majority could fundamentally alter the structure of economy and society.

The 'Economic Management' report proposed broad policy reforms across a range of issues. Jesson (1989:43) observed that:

"Economic Management" was a hard-line Chicago School document that must have been written with the expectation of a labour victory.... It is significant that Treasury assumed that it would be acceptable to Labour, because it was fundamentally in conflict with the welfare state politics of the Labour Party. Treasury must have written it in the knowledge that there were people in the Labour Party who would find it congenial.<sup>13</sup>

The adoption of the framework for economic management for public sector management contradicted Labour's electoral pledges. Labour had fought the 1984 elections on platforms of full employment, social justice, price stability, democratic economic management and greater control of the economy by New Zealanders. Each of these aspirations was to be adversely affected by the sweeping reforms in the public sector.

The Treasury's 'Government Management' combined strategic choice, new managerialism and monetarism within a broader neo-liberal economic framework. However, after some four years of Labour government-led reforms, the 'core' public service remained unchanged (The Treasury, 1987: 59). Its proposals for public sector reforms took their cue from managerial objectives aimed at clarifying objectives for public sector managers, giving them greater freedom to manage, together with adequate accountability considerations, and argued for effective assessment of performance. A new managerial ethos was at the heart of further public sector reforms. This required major changes to terms and conditions of employment of public sector managers and a re-definition of their accountability procedures.

The first reform as a result of Government Management report in 1988 made New Zealand:

the first country in the world to prepare proper public sector accounts with a full

balance sheet and an accrual-based operating system of income and expenditure. (The Fiscal Responsibility Act also) sets out general principles for prudent fiscal policy which the government itself must translate into numerical targets for the balance budget, debt and public sector net worth... (The Act) requires much fuller disclosure of information to allow scrutiny by parliament, the public, not least, the financial markets (The Economist, 1995:42-3).

Hailing these changes, The Economist (1995:43) noted that New Zealand had probably the best fiscal and monetary policy framework anywhere in the world. But it further observed that by itself, that did not guarantee good policy; but by making policy more transparent, it will improve the capital market's ability to impose discipline. Managerialism, corporatisation, and a range of other measures introduced since 1988 have exposed the state sector to capital markets and open competition.

In the first instance, the State Sector Act developed the twin goals of the Labour Relations Act, that is, of promoting enterprise level bargaining and importing private sector managerialism into the public sector. In this respect it had:

radical implications for public sector industrial relations. It meant the elimination of the distinctively public sector system that had developed since 1948, and its replacement by the private sector system embodied in the then Labour Relations Act. Thus the State Sector Act abolished general pay increases for state employees, statutory pay-fixing criteria, occupational class pays claims and compulsory arbitration. There was now no obligation upon the government to provide employment conditions fairly comparable with those in the private sector. The elimination of compulsory arbitration and the persistence of high unemployment made it harder for unions to maintain relativity with the private sector (Walsh, 1993: 127).

The public sector was initially compartmentalised into 40 autonomous departments headed by chief executives with powers similar to those of private sector, apart from wage bargaining functions, which were still the responsibility of the State Services Commission. While chief executives were able to negotiate conditions of employment either with the Public Service Association or units of workers in individual departments, the retention of centralised wage bargaining was an important armoury with which to ensure fiscal restraint.

'Government Management' according to Jesson:

signified a shift in Treasury's attention from the overall economy, which it thought was largely restructured by this time, to the processes and structures of the state itself.... The state still interfered in a fundamental way in the affairs of the private economy. It protected the unions, and provided them with coverage of the wage-earning workforce. If the reforms of the private economy were to be effective, the momentum would have to be carried into the public economy.

Jesson further noted that:

in terms of its constitutional role as adviser of the government, Treasury should have ignored the question of the goals of society and the underlying values of the welfare state. These are political matters for the government to work out, and not within the Treasury's competence. Treasury's role should have been limited to discussing how most effectively to achieve these goals.... It accepted no limits of this sort....it was animated by ideology: its economic methodology was combined with political goals and a political point of view, the same combination as an extended Chicago school. The methodology and the goals were mutually reinforcing and the combination allowed no possibility of doubt or of alternative point of view (Jesson, 1989:113-114).

The State Sector Act raised issues concerned with the future constitutional role of the public service, and issues connected with the nature of public employment. Martin observed that most commentators on the public sector reforms had concentrated on the new managerial systems designed to improve performance. Less attention had been paid to values relevant to governance other than economic policy (Martin, 1990:186). When we examine such issues, the almost revolutionary nature of the broader project comes into view, because clearly what the fourth Labour Government had begun was a fundamental overhaul of the state itself - as a logical initial step aiding the internationalisation of New Zealand's economy, and subordinating labour more fully to the primacy of capital accumulation.

When the National Government took over government in 1990, it hastened the pace of the reforms. In the 1993 electoral challenge, the narrowly defeated Labour Party had conceded, this time with the support of the CTU that there would be no return to the corporatist, regulatory regime of the 1970s. Short of ensuring a legislative environment conducive to collective bargaining, the labour programme made no further concessions to organised labour - a theme that was equally dramatically affirmed during the 1997 elections.

Public sector reforms made public sector employees as vulnerable as their private sector counterparts had become. It aggravated the vulnerability of public sector organisations of workers as well. Both these measures combined to ensure that the public sector did not become the hot bed for revolt against the reform agenda. This, it is argued was the political project behind the dramatic public sector reforms that New Zealand experienced over the past 15 or so years. It was also one that favoured multinational capital which was best placed to take over the management and operations of most of the previously state sector enterprises.

Crucial to the restructuring project has been the reform of the public sector, which has included sweeping privatisation, introduction across the board of new managerialism in the

remaining state sectors, and clear commitment to further privatisations. State sector reforms have apparently been propelled by the twin needs of reducing the public debt and to reduce the costs of business in New Zealand. Thus what appeared as a project to discipline and fragment labour and to wipe out the spaces from which collective contest could be spearheaded was sold to the electorate by references to reducing the cost of government.

The State Services Commission's review of public sector reforms led to the development of a fragmented public sector. Moreover, by introducing incentive-based management and pay systems under which both its managers and employees operate, the public sector organisations began to compete with each other. This undermined worker solidarity and diminished the public profile of public sector institutions. The debate whether privatisation ought to be viewed as a response to economic crisis or an acknowledgement of the failed state interventions also worked to deflect criticisms of the anti-union thrust of privatisations and public sector reforms.

But other measures that were part of the state sector reforms also helped the electoral and public saleability of this project. Tax reductions had been made possible by a dramatic reduction in public sector spending as a result of the massive privatisations in New Zealand. For a while, therefore, privatisation did look attractive to middle New Zealand taxpayers burdened with high rates of income taxes. Moreover, by the early 1980s there was widespread disillusionment with state service delivery.

However, there is a more global dimension to such sweeping public sector reforms. New Zealand's economic downturn of the 1980s fitted into a more global pattern. Similar agendas were being developed in the principal OECD economies such as the US and the UK at the time. During this period, the economic policy agendas of the OECD and G7 reflected the need for co-ordination at the global level to deal with the crisis of accumulation. Protectionism in advanced economies was viewed as a matter of growing concern and tension. It was during this period that moves towards multilateral liberalisation within the GATT framework took off in earnest - although the first round of agreements was not to take place until 1995. The problem of accumulation in the global capitalist system could only be dealt with by sustained measures in national economies - which require state acquiescence and support. New Zealand provides an excellent example of how a transnational agenda for reform was applied in a very specific situation.

Wallerstein (1996), Silver (1995a) and others have examined the responses of capitalism to crisis over the long term. It is clear that capitalism has periodically confronted crisis by waves

of expansion. In the post-cold war era, physical expansion of markets are no longer so relevant. So how can capitalism's expansive thrust be sustained in the present period? State sector reforms provide a helpful way of dealing with this paradox. Viewed sectorally, the 1960's to the present are marked by the enormous strides made by international capital in penetrating the state sectors. In New Zealand, this has taken the particular form of deregulating the telecommunication, airline, banking and utilities sectors.

Such developments were made possible by a host of deregulatory measures, that had the effect of fragmenting and marginalising organised labour. The corporatisation and commercialisation that made it possible to sell off state enterprises in the first place achieved this initial goal quite effectively. This approach provides a useful way of looking at how class-politics underwrote a process of economic reform and how it reflected a recomposition and intensification of class politics within the global, rather than merely the national environment at the same time.

#### **4:8 Two decades of battering**

No where has adjustment and restructuring impacted more than upon organised labour. New Zealand, until the mid-1970s had boasted of one of the best-organised trade union movement in the world (Council of Trade Unions-CTU, 1995). The impacts of reform and restructuring upon union membership, their effectiveness and influence was felt evenly across the private and public sectors. Moreover, new employment created after the reforms of the 1980's was largely in sectors outside the union umbrella. These were partly counterbalanced by union efforts across the private and public sectors to mediate the fall-outs by developing increasingly co-ordinated responses; a process made easier by the emergence of the CTU as the main national union centre.

The Labour Relations Act promoted the amalgamation of public and private sector federations into the Council of Trade Unions which at its launch in 1987 enjoyed over 530,000 members. By the 1994-1995, this had fallen to 258,276. Between 1993-1994 and 1994-1995 a further 15.5 percent decline had occurred (CTU, 1996). There is no evidence that decline in union membership has levelled out. This reflects the continuing unfolding of the full impact of the ECA and restructuring generally.

Bray and Neilson (1996:79) conclude that:

a labour government committed to a market direction of economic reform and a union movement relatively disorganised and distanced from the Labour Party presented a

mutually reinforcing set of contingent causes that help explain the steady direction of Labour reforms towards labour market flexibility. The Government could move quickly to determine the basic direction of economic reform. The NZCTU did not have sufficient power and legitimacy to ensure compliance with its decisions by the union movement as a whole. In turn, the Labour government could remain sceptical about a 'negotiated economy' while this lack of central legitimacy remained apparent. The further the government moved down its chosen track, the more the inability of the union movement to confront its direction of reform became apparent, as its bargaining power diminished.

The national union federation presently enjoys an almost token consultative status. Its influence upon public policy has been almost irreversibly narrowed; replaced by the assertiveness of the New Zealand Business Roundtable. The appointment of a number of members of the New Zealand Business Roundtable to senior executive positions in the reformed public services and corporate bodies have also given an added impetus to the implementation of public sector reforms.<sup>14</sup>

Both the scope and coverage of collective bargaining has shrunk severely as a result of the ECA (Harbridge ed. 1993). Arguably, the fear that the prohibitive costs of administering large numbers of individual contracts may give some impetus for a return to collective bargaining has been found wanting. Moreover, unions have been unable to roll back the rise of independent bargaining agents, mainly legal firms. With lower overhead costs, and often better and more focussed advocacy, many of these have been able to secure better contracts for individual or groups of employees than have unions. Thus a competition between 'unions and other bargaining agents has become apparent' (Colin Hicks, interview, 18 August 1995).

Because the New Zealand Council of Trade Unions (CTU) in 1987 enjoyed a membership of 63 percent of full time workforce, many trade unionists had felt that a neo-liberal labour market based assault long the Thatcherite lines could not take root in New Zealand (Harris, 1995). But by the time the ECA was introduced, the CTU had already been worn down by the problems created by 'high levels of unemployment, the decline of industries in which the traditionally more militant unions were based, a rise in business political activism, the emergence of industrial militancy amongst employers and the implementation of a New Right policy agenda by Labour' (Roper, 1996:257).

Efforts by the CTU to co-ordinate national responses to the neoliberal agenda introduced by the Labour Government had borne limited success. The CTU hung on to the corporatist settlements while negotiating the neoliberal reform agenda, an inherently contradictory approach. The Labour Relations Act (LRA) of 1987 was generally seen as a favourable outcome. It

confirmed that given the odds against organised labour during a deep recession, the LRA gave it some protection. Its inability however to counter the ECA even from a relatively strong base that the LRA gave is explained in a number of different ways.

Firstly, applying the theory of contingent bureaucratic conservatism, Roper (1996) concludes that a cadre of full time CTU officials failed to harness rank and file anger and CTU affiliates pressure for action towards a general strike.

From the introduction of the Employment Contracts Bill to its enactment, the CTU vacillated and finally did nothing. The CTU failed to provide a cohesive public, visible leadership in opposition to the Employment Contracts Bill and, instead, left others to take the lead or to flounder because of its lack of direction (Roper, 1996:269).

While a theory of bureaucratic conservatism is useful, it fails to account for other factors that shape unions choice of strategies. While there is some evidence that public support for the new National government had waned in the first six months of its term, its impact on the prevailing anti-union orientation of large segments of the community was clear. The National Party-government capitalised on the financial insecurities of a middle-class and largely white New Zealander population. Reforms visibly rewarded this class of the population (Kelsey, 1995:182-4). Scott locates the limited support for CTU opposition to reforms in a broad context, arguing that that when the Employment Contracts Bill (ECB) was introduced, the union movement confronted a range of obstacles. They included a restructured economy, a traditionally anti-union political party was in power, a traditional parliamentary ally was in disarray and a dominant ideology had exploited general disillusion with big government. Thus the presence, however, temporary, of a particular configuration of political and ideological forces influenced the restructuring of industrial relations (Scott, 1996:293).

Within this changed configuration, the National Government was able to deploy resources aimed at media coverage through which to contest the growing union and public opposition to the Employment Contracts Bill. Firstly, the release of the Bill as part of the Government's 'Economic and Social Initiative just days before Christmas ensured diminished press coverage. Secondly, where the media did report the Bill, the government was the primary news source. When given coverage, reports on the Bill competed with Gulf War stories. Thirdly, because the CTU had gone along with the neoliberal agenda of the Labour Government, its opposition to the Bill was seen as less than principled by the reform agents within government. The New Labour Party, which had opposed Labour's restructuring agenda was not accorded

media attention as a credible political party. Moreover, when media reporting focussed on the Bill as a result of growing opposition, this coverage was negative highlighting protest action as illegitimate, drawing attention away from the substance of the policy. Indeed the point communicated by the media was the inevitable passage of the legislation. And the dominant news frame represented the introduction of the bill as an event without a responsible agent; it was a neutral piece of legislation and this served to depoliticise the issue' (Scott, 1996: 289). This further dented the CTU's resolve.

Conscious of the media's predilection for anti-union story frames and the government's capacity to exploit these frames for populist purposes, the CTU became fixated with the public relations battle (Scott, 1996:294).

These factors could arguably have reinforced the contingent bureaucratic conservatism of the CTU leadership, but ultimately they exposed the hollowness of a narrow union-based response to a broad anti-working class agenda imposed by a right wing, hyper-liberal government.

Following this spectacular defeat, the CTU shifted attention, in the knowledge that any ideological opposition to the ECA was largely lost and the prospect of reversals through a future Labour Party victory was also slim. Embeddeness of the radical labour market reforms thus depended upon the particular configuration of ideological and political factors. Given the overwhelming odds, the CTU and organised labour's attention shifted elsewhere.

One the main successes claimed by the CTU in recent times is the reformed electoral system through which it hopes that 'nobody will get the government that they vote for' (CTU, 1995:3), reflecting a recognition that Labour Party and CTU relations had weakened. It also demonstrated a commitment to expanding its direct stake in the political process through support of electoral reforms. The CTU also noted that labour market deregulation led to differentiated outcomes, leading to diverse union responses. An 'organising model' of trade union has won some support among CTU affiliates, as have medium term strategies of developing industrial unions via strategic amalgamations. Both these responses look very dated and provide little source of comfort to workers in the short term.

Interestingly, several union officials stated that they had been reduced to merely responding to day to day challenges presented by such a large reform agenda (Hicks, interview, 1995; Harris, interview, 1995). Unions were not affected solely by the ECA, but by social policy reforms, privatisation, liberalisation of working hours, and a range of other reforms. For the CTU, this meant that vastly increased localised pressures dispersed their capacities. Few



leaders were able to grasp the interconnectedness between the different part of the reform project (Harris, 1995).

The indivisibility of reforms arose because they were presented in technical, often dressed by seemingly complex economic equations and endorsed by agencies such as the World Bank. For the larger industrial unions, such as the Public Service Association, localised bargaining and co-ordinating between increasingly fragmented bargaining units presented new day to day challenges to the leadership, deflecting attention away from longer-term strategies and implications of these reforms.

A logical outcome of the ECA was the proliferation of individual employment contracts. Because unions were pressured to keep pace with the increased range of contract negotiations their broader strategies suffered. Differentiated contracts also gave rise to diverse sets of interpretation disputes, leading to a phase of judicial activism on the part of unions. Some gains have been reported through favourable decisions in Employment Courts.

Internationally, the CTU waged a successful campaign through the International Labour Organisation, with New Zealand becoming one of the few OECD countries to be unfavourably commented upon in the Freedom of Association and other ILO committees. However, the limits of ILO advocacy were demonstrated in its feeble response to the CTU's complaints. The final recommendations following an inquiry were: 'that the Government inform it of the results of the proceedings before the Court of Appeal of the New Zealand Medical Laboratory Workers Union case, and Capital Coast Health Ltd., and other relevant judicial proceedings; that the ILO hoped that the New Zealand Government would ensure that the established principles of collective bargaining would be incorporated into the Employment Contracts Act; that workers and their organisations should be able to strike in support of multi-employer bargaining, which is expressly illegal; and that the ILO's services are at the disposal of the New Zealand Government' (Harbridge et.al. 1996:18-21). These failed to have much impact upon Government policy or on public opinion. Drawing its strength from the field of individual rights, the Government has largely dismissed these recommendations.

Unions have drawn some relief from two developments. Firstly, the introduction of the multimember proportional representation system of voting has increased the scope for direct political influence. The fragmentation of the Labour Party of the 1980s and the rise of new smaller national parties might have, however, negated possible gains during the 1997 elections. Secondly, the very progressive bill of rights has resulted in a number of challenges to employer

privileges and actions under its human, civil and other individual rights provisions. At another level, the Employment Court and the Court of Appeal have given further hope to unions on a number of employment related issues. Unions have regained some ground on issues, such as redundancy and personal grievances, dismissal, entry to workplace, and similar issues. Judicial activism has increased. Thus, it is possible, at some point in future, that these developments may provide an impetus for a return to some form of tripartism, even if its scope were to be restricted to agreements about narrow workplace issues.

New Zealand's union movement developed on the back of a strong corporatist tradition and set of relations. The recent assaults on these practices have meant that many unions have begun to return to their roots through organising campaigns and related activity. Within the space of a decade or so between initial reforms and the current period, economic developments were used to justify the neo-liberal agenda. In the case of New Zealand developments on a number of economic fronts have been used to soften public hostility and reactions against the state.

#### **4:9 The rise of the neoliberal model of state/market configuration**

The radical changes in labour regulation, public sector organisation, and a comprehensively liberalised capital market fundamentally transformed the architecture of the New Zealand state. The many reforms introduced between 1984 and 1995 were part of a comprehensive and unified strategy to overhaul a protected economy. It is thus important to understand the overall picture of this transformation. The traditional arguments about the retreat of the state are far from satisfactory in capturing the comprehensive nature of changes. What clearly resulted from New Zealand's restructuring was a transformation of its market economy, providing the basis for its accelerated integration into the global capitalist system.

The state made a decisive retreat and 'retired almost completely from any form of active economic management' (Lange, 1996:26). With the entry of the UK into the European Union, New Zealand's advantaged trading position in Europe was slowly eroded. Closer Economic Relations with a similarly aggrieved Australia came with new uncertainties. The aggressive export oriented ASEAN economies of the 1980s and 1990s that had long been overlooked by New Zealand exporters forced the New Zealand state to confront the impact of declining competitiveness across a range of industries. This was complemented by a preferential trading arrangement with the island states of the South Pacific resulting in trade balances that significantly favoured New Zealand capital. These externalities combined to create unique

challenges for capital and opportunities for its state.

It is necessary to move beyond narrowly-based understanding of the dramatic restructuring in New Zealand, primarily in terms of a response to a deeply embedded economic crises, and focus on the broader generative mechanisms. Firstly, the crisis facing New Zealand throughout the 1980s and early 1990s undoubtedly had its origins in the global environment. Secondly, the New Zealand state's response to that crisis reflected fundamental political choices. These choices enabled it to mediate both global pressures and a sharp domestic economic downturn in the same breath. A crisis of capital accumulation in a social democratic corporatist setting created the political condition in which labour could be re-regulated. By drawing labour into this equation, it is possible to understand the generative factors for a deep hollowing of the state, and for the near complete liberalisation of New Zealand's capital markets. This equation was given a favourable gloss by economic policy institutions; and the new settlement was kept in place by technocratic institutions rather than political elites. The main transformations and selected consequences of economic restructuring are outlined in the Table below.

**Table 2:0 Features of economic restructuring in New Zealand: 1970-1995**

Transformations	1970 – 1984	1985- 1995
<b>Impetus for change</b>	Oil crisis on 1973 Ending of preferential market access in the UK in 1975.	Economic downturn in mid 1980s, defeat of the reform oriented labour government in 1987, followed by financial sector crisis.
<b>Economic policy changes</b>	Trade liberalisation, efforts to consolidate the corporatist regulatory framework	Comprehensive liberalisation of the financial sector, deregulation of labour market and industry
<b>Restructuring of state institutions</b>	Increased Keynesian type of state interventions in industry, expansion of the state sector in services	Radical commercialisation and privatisation, restructuring of employment relations in the state sector, enhanced role of the Finance-treasury complex in economic policy
<b>Outcomes</b>	1. Some trade diversification and widening of export base 2. trade unions consolidated their influence 3. Decline in FDI 4. Low economic growth and growing unemployment	1. Substantial increase in FDI in services and manufacturing. 2. recomposition of the structure of employment across the economy (decline in manufacturing employment, increased lfr for women) 3. weakened trade unions and collapse of bargaining coverage in several sectors. 4. increased influence of Business Roundtable and Employer groups over the direction of economic policy 5. Exports and imports as a ratio of GDP Increase by more than 10 percent.

#### **4:10 Conclusion: Writing labour into the depoliticised reform equation**

What resulted from these dramatic changes in New Zealand is a reconstituted state, characterised by the demise of a welfare state, and a reassertion of the primacy of the market. At the same time, the capitalist New Zealand state has reconfigured itself. However, there remains a potential for state intervention and economic management. The Waitangi claims, for example, continue to highlight the pivotal role played by the state in mediating conflict and in economic management. Restructuring was a deliberate policy choice that enabled capital to reassert its primacy through a forced separation of the public and economic spheres.

Corporatist labour politics may have been delivered a body blow by the economics of liberalisation; it also exposed the weak foundations for labour's resistance to the most comprehensive anti-worker assault that labour has faced in New Zealand over the past fifty years. However, organised labour's accommodation with the Labour Party and its continuing experiments in creative responses open future possibilities for labour in New Zealand. While the reforms have contributed to further internationalisation of New Zealand's economy, internationalisation has not been simply about efficiency gains, competitiveness or economic growth; it has served to enhance the mobility of capital on the one hand and the deepen the control of labour on the other. This required a reorientation of New Zealand's politics, through which capital/labour contests were managed. In this respect, economic internationalisation had both homogenising and differentiating impacts. It was homogenising to the degree that the conditions for capital accumulation in an increasingly internationalised market were reconstituted. It had highly differentiating impacts upon workers in terms of worsening income differentials and ethnic inequities, and increased workplace vulnerability.

The 1980s and early 90s clearly present a resounding defeat for organised labour by a reform process induced by changes in the global political economy and implemented by a dependent capitalist state. The globalised world of the 1990s, however, is still a world of nation-states with recognisable national interests, which include discrepancies in standards of living and welfare. At the same time, internationalisation has been propelled and sustained by nation states, involving political choices on the part of states. Clearly, state/labour and capital contests will continue to define the parameters of the political sphere, even though they may be expressed in different forms. New forms of fragmentation, including the ascendancy of new corporate pressure groups and the rise of ethno-political pressures express the forms in which capital itself came to be re-organised.

A global free trading environment brought about through the lowering of tariff and protective barriers has levelled the stakes for competitors in that system, translating into increased pressures upon wages and cost of business. These costs were affected by state regulation and organisations of labour. The economic reforms thus sought to cripple organised labour and fragment labour politics. However, these outcomes are not permanent and will remain contested

A permeable but centralised state has succeeded in making class-politics less visible. The technicalisation of economic policy formation, the shielding of that policy framework from class-political pressures has been central to the attaining the reform goals. This has critical implications for democratic politics as well as for political options for traditional forms of labour organisation.

## Chapter Four: Endnotes

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1. A last ditch effort by Prime Minister Mike Moore some months prior to Labour's electoral defeat in form of a negotiated wage restraint illustrated very clearly that the time for corporatism had passed. Capital markets had a new found ability to discipline states. Similarly, re-structuring had led to a large scale differentiation within working classes making elite national trade union type of leadership a less effective tool for the disciplining of labour. An increasing proportion of new employees now found itself in the unorganised (or 'unorganisable') categories.
2. Denmark (1990:280) also argued that the failure of Keynesian policies in the 1970s and early 1980s (under both Labour and National) resulted in the creation of a 'highly ideological treasury hardened not only in a free market direction but in a Chicago school direction'.
3. Douglas (in Douglas, 1980) outlined his personal vision about the reforms that were necessary prior to the 1984 general election. The Treasury's brief to the incoming Government titled Economic Management of 1984 exemplifies a remarkable degree of agreement with Douglas's broad prescriptions outlined in his book.
4. The term social democracy was widely used to refer to New Zealand society prior to the mid-1980s. Denmark discusses the crisis of social democracy in New Zealand in a comparative framework. Generally, the point is strongly made that a free-market ideology driven policy process severely fractured the compromises between labour and state that led to the dismantling of tripartism. There was no re-negotiation of the historical compromises (Denmark, 1990: 285). Such changes have altered the nature of New Zealand politics quite considerably. Social dislocations that emerged consequently led to a period of restructuring within the constituent agents (for example the trade union movement). Re-organisation of established bargaining agents thus correspond to both the demands of a restructured economic environment and its demonstrable undermining of (neo)-corporatist mechanisms that were at the heart of the New Zealand social democracy.
5. Andrew Higgins, ('Land And Freedom', The Guardian, 17 October, 1995: 2-3) provides glimpses of the growing nationalist sentiments among segments of the Maori community and the rejection by the leaders of that community of packages for accommodationist settlement of Maori grievances by the National Government. See also Kelsey (1993).
6. For exports by region, see Clark and Williams (1995: 26). Also see Tradenz, 1993/4. Regional Market Profiles for more detailed breakdown of import and export trends. A greater differentiation in the origin and destination of exports and imports also resulted from the structural reforms to the New Zealand economy (OECD, 1993 and 1994).
7. Harbridge (ed.). 1989 also discusses the possible impact of the Act on union structures in New Zealand. The LRA, however, had too short a life span to seriously affect the labour market and trade unions structures.

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8. Much of the reforms of the 1890s were attributed to William Pember Reeves, a fabian socialist who became the Minister for Labour in 1892. His book State Experiments in Australia and New Zealand give the first example of the "social laboratory" nature of New Zealand. See also Brookes (1995).

9. Walsh (1989: 21) argued that in the making of the LRA 'there was a fight between the advocates of radical deregulation and (slightly less radical) re-regulation. The policy battle was fought out between the Treasury, a passionate advocate of de-regulation, and the Department of Labour, who opposed de-regulation on the scale wanted by the Treasury and the Business RoundTable which did not favour re-regulation either. ... The Department of Labour won'. This was the last big policy battle won by the Labour Department.

10. Personal discussions, Professor Kevin Hince, Director, Industrial Relations Centre, Victoria University of Wellington, 19 September, 1995. The small enterprise employers, according to Hince, also feared that they were being streamrolled into accepting drastic changes by employers from large corporations.

11. From discussions with Peter Harris (New Zealand Council of Trade Unions, 17/9/95). The CTU is routinely added to the itinerary of such visits.

12. Following public outcry against the reforms, and the waning of the support of the unions for the Labour Government, Douglas was replaced from his position. However, his successor was unable to reverse the tide of opinion that had shifted away from the Labour Party and by 1989 many unions had actively campaigned on an anti-Labour Party platform.

13. Marks (1996:18) states that the 'radical Chicago-school free market economics of Roger Douglas was shared by senior Treasury officials who had secretly worked with him in the dying days of the free-spending National administration'.

14. This point is owed to Colin Hicks of the New Zealand State Services Commission.

## **Chapter Five: Japan - Neo-corporatism, accelerated internationalisation and dis-organised labour**

### **5:0 Introduction**

Japan presents an interesting study of labour regulation and economic transformations in an interventionist and a comparatively 'closed' economic setting, in what otherwise appears as a highly internationalised industrial economy. This contradiction underlines the very specific form of the Japanese capitalist state (Wade, 1996; Tabb, 1995; Tsusu, 1993). As a case study, it demonstrated unique legislative, political and non-institutional mechanisms to regulate labour in the post-war period. This chapter assesses labour's often-contradictory responses to economic policy regime changes both historically and especially in the present environment of reform and adjustment. Periodic economic policy shifts that redefined the role of the Japanese state also reoriented labour institutions to the challenges posed by the rapid internationalisation of the Japanese economy. Such reorientation also reflected a process of continuous reconciliation of competing domestic and global pressures. This study demonstrates that a general account that places an excessive premium on global factors as the key determinant of economic developmental trajectories can be faulty. Alternatively, an account that re-positions the state as an internally differentiated and at times self-contradictory agency better helps us understand the complex generative mechanisms of change during periods of accelerated internationalisation.

The Japanese state responded to global economic challenges at a pace largely dictated by domestic considerations. Its spectacular industrial growth between 1950s and early 1970s created options that few other OECD states enjoyed at the time. During this period, it refined a unique approach to labour regulation. Paradoxically, the re-regulation of labour by the state was achieved during the decade of its most accelerated economic development. Moreover, during this period, the Japanese political economy did not experience sharp swings in economic policy. However, major shifts are now more likely as Japan re-adjusts to a changed regional and global economic environment. This is likely to have major implications for its approach to labour regulation.

This chapter first highlights the historical trends in the internationalisation of the Japanese economy and the development of its approach to labour regulation. It assesses Japan's state-led and co-ordinated approach to industrial growth that emerged prior to the second world war. It then examines the industrial relations regime upon which its industrial development



policies were rooted. An examination of the patterns of developments in labour policy and industrial development follows, drawing out the contradictory development of neo-corporatism on the one hand, and the decentralising and fragmenting thrusts of labour market policies on the other. This discussion is presented in two time frames. First, is the period of economic reconstruction between the end of second world war and 1960. Second, is the crucial decade of 1960s, when the Japanese state speeded up the integration of its economy with the world economy. By re-examining these relationships during these periods, it is possible to explain how the post-war Japanese state managed the contradictory global and national pressures during a period of state-led economic internationalisation. The chapter then examines how the regimes of labour regulation were remoulded as a response to new pressures arising from both the global economy and the domestic economy in the early 1970s and between 1990 and the end of 1995. The chapter concludes by examining labours changing strategies, the mechanisms through which compliance was achieved historically and the ways in which new regulatory regimes were legitimated.

#### **5:1 The emergence of a 'unique' labour regulation framework**

Labour regulation in post-war Japan is contextualised within the framework of a 'developmental state' (Tabb, 1995). This term broadly characterises the configuration of economic and political power that emerged in the post war decades. Its post-war policies were strongly orientated towards selectively developing world competitive industries through productivity gains derived from a complicated labour regulation framework that emphasised efficiency, flexibility as well as the 'national interest' (McNamara, 1996; Kiyoshi, 1992; Inagami, 1992). The term 'developmental state', captures the political process through which policy frameworks were shaped with reference to some sense of a 'national interest'.<sup>1</sup> This discourse about the 'national interest' was shaped by political and bureaucratic elites (Fukui, 1992). This is significant to understanding the re-orientation of its mode of labour regulation in the 1960s and more recently in the 1990s.

A protectionist and nationalistic economic development strategy nurtured the development of a strong national industrial and manufacturing entrepreneurial class (*ziabatsus*) and the *keiretsu* groups (Wilkinson, 1994: 32). However, industrial development policies such as anti-monopoly laws constrained competition among them especially in areas such as the financial sector (The Nikkei Weekly, 18/11/96:18). Secondly, Japan's economic

internationalisation is quite distinct given its extreme dependence upon state regulation of industrial development. Domestic economic and political factors thus weighed heavily upon the chosen modes of development throughout the postwar period. These historical features influenced the emergence and legitimation of a centralised and de-regulated regime of labour regulation. This regime emerged from a reorganisation in the immediate post-war decades and through labour market instruments and neo-corporatist practises more recently (Price, 1997; Taira, 1993; Takanashi, 1996).

Accounts that stress the causal connection between the internationalisation of the Japanese economy and developmental of 'in-house' enterprise-based industrial relations regime since 1960 are problematic. Enterprise unions cover less than 20 percent of Japan's workforce, and the economy is among the most closed in the OECD. Several interpretations stress the role of a powerful and interventionist state, and the elite bureaucrats. Such interpretations undervalue the role of politics and political competition during the process of economic internationalisation in the post war period. Political factors are shown to have been even more important during the period of accelerated economic internationalisation between 1975 and early 1990s. A relatively closed economy provided an environment where political agencies could readily affect labour/capital relations. By re-focusing attention upon political agencies, this study hopes to transcend the simplistic associations between specific development strategies and an enterprise based mode of labour regulation that is found in much of the literature on Japan.

Japan's post-war development and the central role played by its state in its developmental processes have been fairly extensively studied (Hoston, 1996; McNamara, 1996; Tsuru, 1993; Odagiri and Goto, 1996). These accounts under-emphasise the complicated relationships between developments within Japan and the broader global political economy. As a result, the links between domestic policy choices and global pressures has been less well understood. Such linkages are important as they help explain the variety of ways in which the Japanese state balanced the aims of reconstruction and its international policy commitments. This was even more significant during the immediate post-war period when the state autonomy was severely diminished. However, to understand the why and how of economic policy re-orientation, it is necessary to return to the global post war environment characterised by the emerging hegemony of the Bretton Woods institutions, the emerging international orientation of US corporate interests in Japan and Asia, and an assessment of their implications for the Japanese state, its economy and for its mode of labour regulation.

A pluralist industrial relations regime was honed during the post-war period of US occupation. This regime severely constrained class and political challenges by organised labour between the end of the second world war and the 1955 (Price, 1997; Makoto, 1996). This pluralist regime was premised on the support for an enterprise-based labour relations practice. To achieve this, Japanese cultural values were skilfully manipulated by the Government in the early 1950s to regain workplace-based regulation. This new mode of regulation was used to crush the 'mass unions' that had mushroomed in a more liberal post-war political climate. Clearly, it was the political mediation of well articulated corporate and class interests, rather than economic policy *per se* that helps explain contestation and regulation during this crucial period of reorganisation of production (Tsuru, 1996: 45-52). Political strategies that resulted from these mediations were central to providing an understanding of the patterns and pace of ensuing economic reconstruction.

To understand the remarkable recovery of Japan, it is important to focus upon the changing influence of agencies such as state bureaucracy, corporate managers, and unions in shaping discourse of development. By stressing the role of these actors, a less-deterministic account of Japanese capitalist development can be developed. These policies were:

made in the light of, never wholly determined by, either world economic developments or local cultural affinities; and these choices (were) the outcomes of indeterminate and complex political processes (Wilkinson, 1994: 200).

Moreover, this new phase of global political economy was associated with a sustained effort to re-discipline labour through pluralist industrial relations mechanisms. By re-situating developments in Japanese capitalism within this broader context, a better view of the state as 'transmission belt' or the 'interface' is obtained. This form of the state was anchored to specific labour policies, labour market strategies and legitimisation mechanisms that reflected the compromises that state agencies negotiated in competitions between labour and capital.

The fact that Japan remains one of the least open of the OECD economies is also significant in developing this account of its mode of labour regulation. Moreover, such an economy also provided a more controlled setting for studying the interconnectedness between the global and the national. Far from having a lame union culture as implied in many Western accounts, enterprise unions have been able to secure employment security, wage gains and improved working conditions within an otherwise restrictive regulatory framework (Pempel and Tsunekawa, 1995). Thus the question can be posed: has organised labour improved its lot as a result of the rapid economic internationalisation, or has rapid economic internationalisation been

achieved at the expense of disorganised labour in the non-internationalised sectors? An answer to this question required unravelling the relationship between selective internationalisation especially during the 1970s and 1990s and strategies for labour regulation (Odagiri and Goto, 1996).

Japan's approach to economic restructuring is unique in several ways. In terms of the overall economic policy orientation, McNamara (1996) noted that '(while) Reagan and Thatcher sought to reduce government's role in areas such as deficits, regulations, state ownership and taxes, Japan has remained largely outside this debate'. However, this is likely to change as a consequence of major 'adjustments' announced since 1995.<sup>2</sup> Moreover, these extensive interventions have been aimed not so much at expanding the government's economic role, as at directing trade policies. Such an approach gave successive governments sweeping powers in shaping the ways in which its economy internationalised. It is thus noteworthy, that the Japanese state 'is a pervasive market player without a commercial market presence', and the near absence of state ownership distinguishes it from most industrialised nations. In this regard, 'Japan is a singular case of public policy without public ownership' (Ravenhill, ed. 1995: 2). Such an interventionist state raises questions about the centrality of modes and regimes of labour regulation in the development process. This chapter develops this argument.

Since the early 1970s Japan has been exposed to an externally induced economic crisis. While the 1973 recession was largely overcome through employment adjustment and industrial restructuring, the more recent recession appears more enduring. This has triggered intense debates and pressures for financial sector deregulation, administrative reform and employment adjustment (Japan Echo, 23(2); Nikkei Weekly, 11/11/96; 1 and 3; 2/12/96: 3, The Economist, November, 1997).<sup>3</sup> However, even if neo-liberal reforms were to gain currency in Japan, it is inconceivable that dramatic labour market reforms could occur, as the Japanese system does not lend itself to sharp policy breaks, because its labour market is already characterised by the pre-eminence of an enterprise-based industrial relations system and a deregulated wage market – the two pillars of the neo-liberal labour reform package elsewhere.

During the post-war decades, there was a remarkable degree of continuity in the economic policy framework. These continuities were largely sustained by the Ministry of International Trade and Industry (MITI) and the Ministry of Finance (MOF). However, by the early 1990s, the gravity had shifted greater corporate autonomy (Callon, 1995). The policy environment as a result was exposed to new forms of pressures that have immediate implications

for modes of labour regulation.

How then, does the state and industrial development process connect with the discourse on labour regulation? This discourse has been largely presented in a 'disconnected' manner. As a result, the interlinkage between state strategies and labour has been poorly understood. This chapter re-examines the extent to which unions and an enterprise based neo-corporatist regime affected the unique pattern of Japan's industrial development. In examining this, it will be shown that the objectives of industrial development were determined by state agencies through political bargaining. These goals were then internalised as the primary objectives of the labour relations regime, enabling the expansion of neo-corporatism in an era of rampant neo-liberal restructuring in a rapidly internationalising economy.

### **5:2 The rise of a growth orientated state in the postwar period**

US corporate investments aided Japan's post-war economic growth. Moreover, the outbreak of the Korean War stimulated the development of its manufacturing industries. Both these factors contributed to its rapid economic reconstruction. The succeeding post-war economic growth also transformed state institutions. During these transformations, there was a tendency towards concentration of powers in a select few executive arms of government. This was to significantly affect the emerging modes of labour regulation during the reconstruction decades (Tsuru, 1993).

Japan's economic reconstruction and internal transitions has its roots in a broader historical context, however. The Meiji Reformation of the 1890s was a period when the modern Japanese state acquired its primary characteristics. The Meiji state emerged as a:

distinctively nationalist/paternalistic state. This was a state that would, by its very nature, promote domestic harmony, consensus, and unity, and suppress conflict. It tried to ensure national unity, on the one hand, by the manipulation of the emperor cult - that is, the myth that the emperor was divine and imperial rule eternal and inviolable and, on the other, by ruthless suppression of ideas and ideologies that challenged orthodoxy. Even more offensive and dangerous were actual industrial actions by workers and revolts by farmers inspired by such theory. The appearance of the first Japanese labour union in 1897 was met by the enactment of the Peace and Security Police Law in 1900, while a temporary resurgence of the labour movement in the wake of the Russo-Japanese war (1904-5) was stalled by the brutal repression that followed the apprehension and prosecution in 1910-11 of two dozen leaders of its radical wing.... The anti-class and anti-labour thrust of the Peace and Security Police Law was substantially sharpened in the Peace and Security Maintenance Law that replaced it in 1924 (Fukui, 1992:201).

Overall, the Meiji era marked the evolution of unified nation-state that emphasised economic internationalism, premised upon a consolidation of consensus and unity domestically.<sup>4</sup> Clearly, labour regulation was central to this project. In many respects, this underlying orientation towards state-directed internationalisation and consensus domestically remained largely unchanged.

Thus, a restrictive political environment created during the Meiji era lay at the heart of the project of the modern Japanese State. The continuities with the modern era are stressed to illustrate the importance of this specific historical context. An expansionist post-Meiji state embarked on military aggressions in China, Mongolia, Taiwan, and seized the German controlled territories in Asia during the First World War. By the early 1930s the military took control away from politicians and plunged Japan into a full-scale war in China in 1937 and in the Pacific four years later. Following its surrender, Japan was subject to a comprehensive political restructuring under the direction of the General Headquarters (GHQ) of the USA, demonstrating the relationship between economic crisis and restructuring. The fact that the directions of restructuring were influenced and indeed at times imposed by the USA reflected the role of US capital in promoting a new global agenda. This agenda favoured the supply-side prescriptions that promoted preferential development of selected industries such as coal and steel. In 1949, the USA moved to assert its commercial interests. These were reflected in the macroeconomic guidelines outlined in the 'Dodge Line'. These drastically reduced the level of subsidies, balanced the government budget and fixed the exchange rate at 360 Yen to the US Dollar - all being principally aimed at the control of inflation, and the attainment of wage stability (Price, 1997; Tsuru, 1993).<sup>5</sup> Ostensibly, the Dodge Line presented an early effort to restrict political intervention in the liberalising economy.

The net impact of these reforms, and the post-war economic stabilisation plans more generally are aptly summarised by Tsuru. He concluded that:

such was the monetary background, which, in the generally depressed conditions of the economy, had the effect of favouring those Japanese business firms with former *zaibatsu* connections and penalising small and medium-sized independents. It may be said that while the general public was being subject to the consequential forced savings, gradual redistribution of wealth ensued through capital accumulation favouring big businesses and a solid link came to be institutionalised between the erstwhile *zaibatsu* banks and industrial enterprises. In effect (Dodge) ... constituted 'the first post-war channel between conservative Japanese big business elements and their bureaucratic and political allies in Japan and the top level officials in the US Government' (Tsuru, 1996: 56).

As a consequence the aim of deconcentrating the power of the zaibatsus, who had been 'responsible for Japan's militarism' was compromised (quoted in Tsuru, 1996: 18).<sup>6</sup> During the Japanese recovery, the zaibatsu holdings (industry/bank coalitions) were stronger than during the austere pre-war decades. This was not only to have implications for the form that industrial development took in Japan, but also for power relations within Japanese society.

Illustrating the degree of concentration of capital that emerged between the end of the war and the end of the 1960s, Halliday (1975: 95) observed that by 1970, 'the six *Zaibatsus* controlled six of the top seven commercial banks, the top eleven general trading houses and four of the top five transport firms. Together with the seven *Konzerns* (mainly non-financial operations characterised by integrated operations within a single industry or related industries), they controlled 91 percent of all mining and manufacturing companies and 83 percent of all companies with an annual sales in excess of \$US200 million per annum'. Such a concentration of capital provided fertile conditions for state co-ordination in the corporate sectors and enabled capital to regulate labour markets even under conditions of acute labour shortages.

While the Dodge Line dampened economic growth, it was the outbreak of the Korean War that provided vital economic relief. As the US procured war supplies in Japan, the subsequent industrial deepening, growth in manufacturing output and employment, together with dollar receipts for exports created conditions for accelerated growth. Following the signing of security treaty in 1952 US occupation came to an end. This treaty prescribed an anti-communist, free trading orientation and non-aggression commitments on part of the Japanese state. By the mid-1960s, the reconstructed state began to turn its attention to longer-term developmental objectives. This reorientation was strongly influenced by the fact that radical labour movements had been effectively marginalised, particularly during the more austere reconstruction decades.

Between the period 1956 to 1970, sustained expansion enabled a relaxation of import restrictions, increased exports and freer exchange. Moreover, the Ministry of International Trade and Industry (MITI)

assisted designated industries and firms with information services, import licenses, credit and support to reduce excessive competition. Inflation was restrained by tense combinations of fiscal expansion and monetary deflation (Sheridan, 1993: 193-194).

Such assistance led to a unique form of corporatism, focussed on selected state agencies and business directly, a corporatism that excluded labour until the mid-1970s.

As a result, the Japanese economy:

developed a dual structure - at one level - the high productivity and targeted industries that competed in the global marketplace and at the other - the low-productivity non-targeted sectors protected by regulations that provided little incentives to become competitive (Takenaka, 1996: 7).

This dualism was to characterise the domestic industrial scene as well; marked by a complex web of crosscutting, interlinked small and medium scale enterprises and the very large corporations. However this simplistic dualism was not without its problems.<sup>7</sup> These links were mediated through complex supplier networks that were loosely regulated by government agencies. Such networks also acted as integrated labour markets. With the increasing re-location of Japanese enterprise abroad, such inter-linkages began to transcend national boundaries. Such a recomposition of producer networks thwarted the vertical integration of enterprise unionism and thus further complicated the organising campaigns of the national union centres such as RENGO (the Japan Trade Union Congress) (Wilkinson, 1994: 60-62). This structural characteristic of Japanese industry ensured that high growth and full employment did not encourage increased union assertiveness.

Japan was hit by the oil crisis in 1973 barely a year after the attainment of the income doubling goal set by the Government in 1960 (Halliday, 1975; Tsuru, 1996). This crisis stressed the long-term trajectories of industrial development so carefully mapped by MITI and the Committee for Economic Development. It also exposed the shortcomings of the coercive modes of state co-ordination of the past two decades (Sheridan, 1993: 194; Landsberg and Burkett, 1996). The crisis induced a shift from indicative planning to strategic co-ordination of selected factor markets, resulting in significant industrial transformation. After the pause in growth following the oil shock, there was some reduction in working hours per annum, an increase in labours' share of national income, and a reduction in salary and other differential working conditions between different sized enterprises (Sheridan, 1993: 221). Arguably therefore, the 1973 crisis expanded, rather than constrained possibilities for capital especially in the newly internationalising sectors, and organised labour appeared at least to have held onto the gains it had secured over the previous decade. This ability to regulate both labour and capital markets even during economic downturns was a notable feature of the Japanese state, achieved through a complicated network of formal and informal relations between labour and capital interest groups, various state agencies and the political system.



By the 1980s the national plans were replaced by 'vision documents' such as the 'Outlook and Guidelines for Economy and Society' (Ministry for International Trade and Industry- MITI, 1984). In these documents, the focus had shifted to environmental considerations, needs of an ageing population, search for safer energy supplies, promotion of responsible international policies and improvements in the quality of life for Japanese people among other goals (Sheridan, 1993; Tsuru, 1993). This encouraged a form of neo-corporatism that further dented labour's efforts at organising at national and industry levels (Pempel and Tsunekawa, 1995). Vision documents went further than the depoliticising of economic policy; they depoliticised social policy as well.

This process shielded state institutions even more securely from political pressures.<sup>8</sup> The national vision papers also enjoyed substantial authority as the teams charged with preparing them reflected a cross-section of society. Union and employer nominees featured prominently, along with representatives from the main political groupings. Thus when vision documents staked the case for adjustment and restructuring, they had usually also been well considered by labour focussed interest groups. A new form of interest representation had already come into being long before the first public signs of serious economic downturn of the 1990s emerged. Overall, Japan's response to the 1973 economic crisis had triggered modest structural changes. As a result, an international economic crisis was managed through increased state co-ordination. By withstanding pressures for rampant liberalisation, state autonomy was re-asserted. More importantly, the need for subservience of labour to the goals of productivity in the internationalised sectors, and attainment of global competitiveness by selected sectors had already been endorsed by labour and labour-supported political groupings as part of the social settlement of the 1960s.

After the 1973 oil-crisis, the Japanese economy avoided another downturn until the mid-1980s. This economic crisis had more diverse implications for Japan. Also it demonstrated major institutional dilemmas for the historically interventionist state. The Reserve Bank of Japan (BOJ) was still regulated by the state, and as a result it remained open to the political pressures exerted through the Ministry of Finance (MOF). Its policies often reflected political compacts:

The 1942 law, under which the Bank of Japan is presently constituted, gives politicians considerable power over the bank. The governor and his executives can be dismissed for disagreement with government policy, and their board always contains senior bureaucrats from the MOF and Economic Planning Agency (The Independent, 13/11/96: 9).

Japan's 'big-bang' - an ambitious programme of financial deregulation announced by the new LDP government in November, 1996 included recommendations to weaken the links between the BOJ from the finance ministry.<sup>9</sup> This recommendation is also endorsed by the International Monetary Fund. Moreover, the 'big-bang' also aims to encourage competition by removing intermarket barriers, allowing new financial products and services to be introduced, revising investment guidelines and setting legal, tax and accounting systems in line with global practice (*Nikkei Weekly*, 18/11/96: 1; *The Economist*, November, 1997). Such reforms are epochal because Japanese financial institutions have been prohibited from holding more than 5 percent of other companies shares since the end of the second world war. A second key reform was a move to rescind of Act 9 of the Anti-Monopoly Law, which bans holding companies. This ban was enacted at the impetus of American occupation forces to prevent a clique of industrial groups, zaibatsus, from regaining control of the nation's economy. In these ways, a set of reforms triggered by an economic crisis enhanced the power of capital domestically, and promoted its integration with global capital markets at the same time. These were not insignificant for the analyses of changes in regimes of labour regulation.

Moreover, capital market reforms are an acknowledgement of the fact that foreign capital flows into Japan had been sensitive to excessive state co-ordination. Widespread corruption, bank failures and limitations on disclosures have dented confidence as well (*Nikkei Weekly*, 25/12/96: 12). Moreover, the post-war restrictions led to a proliferation of relatively small banks - numbering over 5000 in 1992. This further constrained the internationalisation of the finance-banking sector.

Between 1952 and 1973, Japan's economic growth averaged 9.0 percent per annum. For the period 1973 to 1990, this has averaged 3.9 percent. It was clear that economic growth during this period were propelled by expansion in the domestic, rather than export sectors of the economy. These domestic origins of growth also account for the fact that the Japanese state has been able to withstand the pressures for liberalisation until the end of 1997. Moreover, its economic structure is such that domestic economic pressures have required high degrees of political co-ordination. Thus even the 1996 package of reforms were subject to severe political contest domestically. Because of its unique structural economic features, the direction, pattern and degree of economic restructuring in Japan is an unusual case. Moreover, because the Japanese state is fairly open to domestic political pressures, it finds it more difficult to abdicate to international markets the responsibility for economic management and labour market

regulation. Subsequently, the Japanese state did not have the same ability to project economic policies in the same depoliticised manner that was possible in New Zealand.

Overall, the growth oriented Japanese state that emerged after the war was characterised by an interlocking network of centralised agencies, including MITI, Economic Planning Agency (EPA), Ministry of Finance (MOF), and the BOJ. Officials of these premier agencies moved between these institutions, and often ended up in their retirement with jobs in the main industrial associations.<sup>10</sup> Moreover, the select *kanchō* economist group members are largely drawn from these agencies as well.<sup>11</sup> Thus the impacts of these state agencies upon the developmental trajectories and policies are both direct and indirect.

The ability of the Japanese state to co-ordinate economic policy rested on a network of alliances between powerful actors, labour market associations, political and state agencies. Such alliances ensured that the state acted and intervened in a market-conforming manner, and in so doing, fortified "the position of existing firms" (Ravenhill ed., 1995: 411). When this came under strain, new alliances began to compose themselves. Led by weak associations in capital markets these emerging alliances may yet play the determinate role in driving the reform programme as Japan accelerates towards fuller liberalisation. The main national labour centre, Rengo (Japan Trade Union Congress - JTUC) has been slowly drawn into these emerging alliances.

From the end of the post-war period to the mid-1990s, the Japanese state has undergone visible architectural changes. The 'co-odinationist' state has given way to what can be better described as a 'competition state' which suggests that the notion of Japan Inc. is all but obsolete.

Rather than attempt to take certain economic activities out of the market, to decommodify them as the welfare state was organised to do, (such a state) pursues increased marketisation to make economic activities located within the national territory ... more competitive in international and transnational terms .... (Moreover), such states are less and less able to act as strategic or developmental states, and are more and more splintered states, with state actors and different agencies increasingly intertwined with 'transgovernmental networks' - systematic linkages between state actors and agencies ... and including a heterogeneous collection of private actors and groups in interlocking policy communities (Cerny, 1996:48).

The focus on state and labour relations and the reorganisation of labour in the post-war decades throws further light on some of the systemic features of the transformed (ing) post-war Japanese state and helps draw out key implications for modes of labour regulation.

### 5:3 Changing organised labour and state relationships: 1950s to the 1990s

Japan's post-1955 trade union structures affected its economic development trajectories. Union structures were in turn influenced by the selection of industrial development policies. They were consequences of state actions that helped crush larger units of labour organisation in the early 1950s and early 1960s (Kume, 1998). However, there remains considerable heterogeneity between unions and even within enterprise-based structures (Benson, 1996). Moreover, even the smaller enterprise units continued to provide sites for contestation (Benson, 1995). Significantly, because of the continuity in political orientation, labour policies have not undergone the sharp swings as a result of changes in government in the 1990s. Labour policy shifts have been much more gradual, providing enterprise unions with opportunities to develop responses to these developments.

During the phase of militarisation, labour unions had been either decimated or forced to dissolve. A totalitarian labour-management system was set up by the military authority and secret police in 1938 - referred to as "Sanpo" organisations (Makoto, 1996). In effect, labour unions were considerably weakened in the inter-war period. Indeed, 'no autonomous unions existed in Japan for the seven years from 1938 to 1945' (Okuchi, Marsh and Levine, 1973:496). This was to have enduring effects during the reorganisation phase in the post-war period. Union structures were also shaped by the defeats faced by radical fragments of organised labour in the 1950s (Price, 1997). The fragmentation and political isolation led largely, though not exclusively, in the direction of enterprise level organisation. Rapid progress in parliamentary politics also meant that union energies were dissipated in electoral contests and labour's political loyalties were spread broadly.

As a result of defeats and the dispersion of political influence, labour looked to the legal arena through which to advance and protect its interests. In this regard:

The foreign perception of Japanese unions ... as docile and submissive is largely misplaced, since it ignores the basic strength in the union structure derived by the post-war legal reforms carried out by the American authorities. Under various legislated reforms, such as the Labour Conciliation Law, the Labour Standards Law, and the Labour Relations Adjustment Law - reforms so profound even by US labour norms they amounted to what Dore has called a 'social democratic revolution' - unions gained for their members not only the basic pay and work conditions similar to management but the legal right to direct involvement in all management committees making decisions relating to labour conditions (McNamara, 1996: 381).

Such a protective environment facilitated the rapid expansion of trade unionism in the 1950s. Because of such protection, unions have identified closely with the developmental goals set by the state. In some respects, these liberal conditions for trade unionism helped contain the expansion of the radical fragments of labour, although the contest and tensions between different fractions continued. Legal protections favoured enterprise unions at the workplaces and enhanced their workplace autonomy. The dominant feature of trade unions in the postwar decades was their uncompromising commitment to socialist politics and their belief that a revolution that would bring about workers control of industry (Makoto, 1996).

The Japan Communist Party linked Sanbetsu Federation (Japan Congress of Industrial Unions) and the American supported Sohyo (General Council of Trade Unions of Japan) agitated for improved wages, job security, and a voice in the enterprise by demanding decision making powers in management councils.

In the 1950s, this strategy, labelled 'shopfloor' struggle (*shokuba toso*), enjoyed a fair measure of success in a number of industries, including coal mining, automobiles, steel, paper pulp, shipbuilding, and railroads. But in every one of these cases, the Sohyo-linked unions were ultimately defeated in a major confrontation with managers who decided the costs of a long strike would be less than that of continuing to tolerate these organisations. Critical confrontations came at Nissan in 1953, at the Oil Paper Company in 1958, in almost all the major steel mills in 1957 and 1959, in the Miike mines in 1960, and at the Mitsubishi's Nagakaski shipyard in 1964-65 (Gordon, 1996: 134).

Thus, the context in which enterprise unions flourished in the internationalised sectors was a consequence of protective policies in domestic markets, marginalisation of radical trade unionism and promotion of new coalitions on workplace productivity. Strong productivity growth and employee associations within individual enterprises were rewarded generously for productivity improvements. Such associations were stronger in the larger export orientated enterprises, the showcase sectors. Overall, however, the framework within which strong enterprise unionism flourished was a political one. It was political to the extent that such corporations relied heavily upon protection secured through their political alliances. But most importantly, given this form of support, an exclusionary labour policy would have been a source of excessive discontent. Because internationalisation of key sectors was directly subsidised by domestic consumers, both employers and the state were able to provide a liberal industrial relations environment in these sectors (Wade, 1996). An exclusionary labour policy under such circumstances could have been a source of much broader conflict in society. Thus the labour/state and capital social contract forged in the 1960s was firmly rooted within workplace.

Why then did this system gravitate towards national corporatism in the 1990s? I argue that the generative mechanisms for this transition lie in the realm of the global political economy.

Economic restructuring in the post-'big-bang' era has generated new challenges for the established regime of labour regulation. Economic policy orientation during this period took a neo-liberal turn, which coincided with significant advances in corporatism, which from the end of the war to the 1980s was closely associated with the protected nature of the Japanese economy. This economy was managed by:

the dominant coalition ... that was composed of the state bureaucracy, big business and agriculture. Small and medium-sized industries joined as minor partners. Yet the political strategy of this coalition with regard to labour remained exactly as it had been in the pre-war period: exclusion from the national level and incorporation at the plant level (Pempel and Tsunekawa, 1995: 268).

The internationalisation of Japan's economy was to alter this matrix and create conditions that facilitated neo-corporatist institutions, with complex consequences for the economy and state. Pempel and Tsunekawa (1995: 269) had observed that the 'isolated position occupied by Japanese labour under the varied corporatist institutions would have come under strain as a consequence of restructuring in the 1980s. However, the proliferation of neo-corporatist institutions that occurred deserves further scrutiny.

Neo-corporatist devices, that include labour, are a recent phenomenon in Japan. This development had been held back by the unresolved disputes between the radical fragments of organised labour, Sohyo and Japan Socialist Party (JSP) alliance, on the one hand, and the Democratic Socialist Party (DSP) and Domei alliances, on the other. In spite of their strong political alliances, the two fragments of organised labour were unable to stop the legislative reforms proposed by the bureaucracy under the successive LDP governments since the mid-1980s (Inagami, 1992: 63). However, neo-corporatism was also held back by the LDP government, which rightly felt that such institutional co-operation would further entrench the influence of the bureaucracy, in this respect the labour ministry (Rengo, 1996).

Because the three main federations, Sohyo, Domei and Rengo were so fragmented, along ideological and industrial lines, they remained committed to expanding their direct political influence in the diet through their selective support of political parties and candidates, rather than support for corporatist procedures (Michio, 1994).<sup>12</sup> The national unification of the trade union movement through the new Rengo in 1989 and the setting up of the Trade Union Council for Policy Promotion (TUCPP) provided favourable conditions for expanding the scope of

corporatism. Moreover, Rengo's support for this was also premised on its belated recognition that firstly, the balance of influence over labour policy matters really lay with various government bureaucracies, rather than the legislative arm of government. Secondly, increasingly labour policy became part of the economic policy framework. Thus support for neo-corporatist machineries on part of unions reflected a new pragmatism. It is noteworthy, however, that Zenroren - the communist fragment of Sohyo which opted out of the Sohyo/Rengo unification in 1989 - has persistently opposed the corporatist line taken by Rengo. It, on the other hand, has favoured direct political influence through its sponsorship of the New Frontier Party. For the bureaucracy, the expansion of neo-corporatist institutions also served a useful purpose. Its excessive powers over the political system in policy formulation had begun to attract severe criticism both domestically and internationally. More inclusive policy formulation processes thus helped deflect some of these criticisms.

However, corporatist developments in the field of labour policy have not restricted the enormous powers enjoyed by the administrative system overall. All political parties during the 1996 general elections campaigns promised varying degrees of administrative reform - aimed at restricting the influence of state bureaucracy. The 1980s thus marked the confluence, on the one hand, of state bureaucracies readiness to give a large, though selective part of organised labour, access to policy process, and on the other hand, labours' aim to increase its participation in the public policy process. This increased participation of labour in formal, and informal processes of public policy making and policy implementation has dented the nexus between the large corporations and state bureaucracies, characteristic of the previous two decades (Harari, 1996: 122-6). As a result, labour was better placed to moderate the adjustment programmes of the 1980s and 1990s, at least in the present period.

Trade unions are now part of consultative processes at many levels. For example, they have been involved in the Industrial Structure Council, the powerful body responsible for developing and deliberating on industrial structure, and the Trade Union Council for Policy Promotion (Inagami, 1992: 74-5).<sup>13</sup> Inagami concludes that

Rengo and its remarkable idea of policy participation, which brought about the emergence and development of neo-corporatism in Japan, had its origins in the difficult economic situation after the first oil crisis. ... Its efforts might bring about not only the end of the de-politicisation of modern politics, but also fundamental changes in the post-war production-oriented Japanese society.<sup>14</sup>

Given the deep misgivings about the power of the bureaucracy, organised labour has also been

pressured to support some of the proposals for administrative reform. With the implied complicity of the bureaucracy in the banking sector, Rengo would have gone against popular feelings had it opposed economic (administrative) reform.<sup>15</sup> Paradoxically, organised labour may be forced into a corner where it agrees to nullify the scope for corporatist settlements. In this regard, a new committee chaired by the Prime Minister Hashimoto (the Conference on Administrative Reform Panel) has attempted to 'lessen the power of government through decentralisation and deregulation'. The inclusion of the chairman of Rengo - Jinnosuke Ashida on this (Hashimoto, 1996: 5) is important in this respect. Labour's representation on a number of other high profile reform oriented agencies was particularly notable after the 1996 general elections.

It is against this backdrop that the expansion of neo-corporatism should be examined. Two factors stand out in this regard. Firstly, within the union movement, Rengo with its more moderate political policy orientation had gained a hegemonic position amongst organised labour. It thus reflects the completion of a cycle of political contest between moderate and radical fragments of labour. More important, following the 1973-oil crisis, the policy orientation shifted decidedly in favour of anti-inflationary policies and the reduction of wage differentials between different categories of workers. It reduced the divergence over Japan's economic policy orientations between the bureaucracy and organised labour. Consequently, labour's support could be harnessed for the process of economic restructuring, compensated by high levels of policy participation. This displayed, quite uniquely, the way neo-corporatism facilitated a social consensus between labour and state bureaucracy over important elements of economic policy. The question then is whether this consensus can hold during the more aggressive phase of restructuring that looms on the state's current agenda. Between 1992 and the end of 1995, it was apparent that such a macro-corporatism was not antithetical to neo-liberal economic orthodoxy.

Three additional factors should be noted. Firstly, neo-corporatism based on an expanded role for labour has gone hand in hand with the accelerated economic internationalisation that was experienced in the post-1973 period. Secondly, neo-corporatism represents a political effort by parts of state bureaucracy to maintain their organising capabilities, which were threatened by administrative reforms during the phase of accelerated internationalisation. Thirdly, neo-corporatism represents a pragmatic response on the part of Rengo to preserve organised labour's privileged position in the regulated industries. Clearly, some of Japan's most internationalised corporations are also among the most protected domestically. Because protection is anchored to



tough political choices, and because organised labour has made the most gains in such enterprises, neo-corporatism represents a strategic policy investment in maintaining this status quo and protecting it from the vagaries of internationalisation. This point is central to understanding the associations between the mode of labour regulation and economic internationalisation more generally.

Neo-corporatism connects to the process of economic internationalisation in a variety of ways. Firstly, declining international competitiveness in the 'sun-set sectors' such as coal, shipbuilding, textiles resulted in a negotiated set of incentives for both labour and capital. This was possible because the declining sectors were selected politically, that is, through negotiations and compromise with employers, unions and industry federations. These negotiations were led by the developmentalist state. Through limited inclusion in policy determination:

Japanese labour has won benefits comparable to its western counterparts during the retrenchment at textile mills without the unrest that often impedes the survival of vulnerable firms when domestic industry adjusts to rapid changes in international markets. The benefit of Japanese tripartite strategies for adjustment must be balanced against constraints on labour's initiatives beyond issues of profit distribution and job security. ... One key to effective state co-ordination in Japanese corporatist strategies is the ability to extend special interests into priorities encompassing both the commonwealth and individual interests. Interests negotiation in the adjustment of the (declining) textile industry shows how capital and labour make their interests complementary to weather change (McNamara, 1996: 395-6).

Secondly, neo-corporatist strategies at industry levels in internationalised sectors are also shaped by global exigencies. Through corporatist strategies, both labour and capital could periodically realign state co-ordination to reduce the vagaries of economic globalisation. Overall, it is thus clear that neo-corporatism has been engendered by the global environment and has found willing hosts in political and bureaucratic configurations that have characterised the Japanese political economy over the past decade.

#### **5:4 The restructuring of the labour relations regime: 1973 to 1996.**

Japan's industrial relations system has attracted widespread attention. In fact many OECD economies have looked to it for lessons for industrial rejuvenation. Developing countries have looked to it as a model of regulation that helped reduce industrial conflict, and promote productivity. Accounts of Japan's industrial relations have varied from those that emphasise its universalistic characteristics (Tabb, 1996), to those that emphasise its specificities (Dore, 1983; Koike, 1988). In the 1970s and 80s Western business and industrial relations schools glorified aspects of Japanese industrial organisation, and saw in it a framework through which the powers

of labour market associations could be reduced, and re-aligned to improve product quality, and competitiveness (Price, 1992).<sup>16</sup> Interest in it, however, waned rapidly since neo-liberal labour market reforms gained prominence internationally in the 1980s.<sup>17</sup> It is important to therefore understand the contrasts in the labour relations regimes after the oil crisis of 1973 and in the post-bubble era. A historical elaboration is necessary to contextualise these contrasts.

Price (1992) divides three phases of its post-war industrial relations development. First, the 1945 to 1947 phase was dominated by labour, which had won real concessions through its socialist industrial unions at workplaces. Such gains included veto rights over matters such as employee layoffs in an era when mass layoffs had become fairly common. Second, the 1950s were a decade of profound instability as this highly politicised system began to give way to new institutions. Third, between 1960 and 1973, a new workplace based industrial relations regime developed its four pillars: tacit but limited job tenure, performance based wage system that was mainly controlled by the employers, unions that had a highly inward and enterprise specific orientation and joint consultation. Kim (1994) looks at Japan's industrial relations system over a longer time frame (1897 - 1985). Kim's examination of the 1916 to 1934 period, in particular shows a period of profound structural change. Changing strengths of the state vis-à-vis labour were reflected in the move from authoritarian controls to paternalistic approaches in the pre-war era. But even in this period, the state articulated national goals by reference to international imperatives, that is, the expansion of Japanese influence through an expansion of industry required the discipline and subordination of labour.

Many writers have attributed the spectacular post-war growth to Japan's industrial relations system (Lee, 1993). However, such accounts ignore the importance of historically specific factors, such as favourable post-war terms of trade with the US, the impact of the Korean war, and a covertly authoritarian anti-socialist political system. These specificities underpinned Japan's approach to labour regulation. Most of the approaches noted under-emphasise the position of non-union segments of labour, and internal labour market organisation within the industrial relations system as a whole. Moreover, they also under-emphasise factors associated with the global political economy. The expansion of neo-corporatism was affected by both Japan's external obligations and the unique institutional factors outside the sphere of industrial relations. Moreover, Japan illustrates a very high degree of differentiation within the three interest groups (state, unions and employers) and the conventional 'three pillars' apply to them in a very differentiated manner. Some of these differentiations are also based on

competition and conflict (such as that between Sohyo and Rengo previously, or between state agencies and the political system currently) within any one of the agencies. Such factors have ensured that the labour relations regime has remained dynamic, constantly reflecting changing domestic configurations and international pressures. Moreover, the wide variances in industrial relations practice between sectors, enterprises, and regions has meant that simplistic generalisations are difficult to sustain.

In order to explain Japan's impressive economic growth between 1975 and 1989, it is important to re-examine how economic integration was managed through labour market strategies. As the largest exporter of private capital during this period (Statistics Bureau, 1995, June: 7, OECD, 1994a), Japanese industry has been able to transfer its labour market strategies abroad as well. Japanese developmental aid agencies acted as transmitters through which national practices have been diffused into the global environment (Williamson, 1994). But they also acted as transmission belts in a reverse manner, that is, helping embed international practices into the domestic environment. Both these characteristics have ensured that its industrial relations system has remained dynamic and constantly adaptive.

Japanese scholars have studied the internal, industrial and regionally segmented nature of labour relations (Shirai, eds. 1983; Kume, 1998). Such segmentations make generalisations quite problematic (Benson, 1996). These differentiations need to be understood historically, mainly in terms of changing state strategies (such as the developmental goals of the Meiji state, the pre-war militarist state), as well as situationally (in terms of labour's chosen strategies). Where industrial organisation served labour's interests well, as in the railways prior to its privatisation, unions bargained at the industry level. Overall, however, the emphasis was on the enterprise. In contrast, Halliday (1975) provides evidence of how labour market mechanisms are deployed to repress unions. These writers variably show how unionists faced persistent discrimination through the secretive nature of salary assessment under the *satei* system. In addition, women faced acute disadvantages and discrimination in Japanese labour markets overall, and within unions. Not only did they face structured disadvantages through lower pay assessments under the *satei* system, but they also were denied equal opportunities to lifetime employment (Takanashi, 1996) as well as employment opportunities in the large enterprise sectors. These situational accounts help explain the co-existence of different modes of labour regulation. But labour's chosen modes of organisation were also moulded by global factors. Global market considerations influenced the decline of the coal, shipbuilding and textile sectors.

In response, labour organised at the industry level in these sectors, and promoted corporatist solutions very strongly (Makoto, 1996; Price, 1997). Overall, therefore the picture that emerges is one of variability in the organisation of labour and its responses to competitive pressures.

Labour's responses were also shaped by the legislative environment. Fairly liberal labour laws introduced after the war reflected the liberal democratic orientation of the occupying power. At the same time, this orientation was counterbalanced by the broader consideration of promoting rapid capitalist growth. The reliance of organised labour upon labour law was extensive, though often more implicit than in most Western states. State regulation of this environment was necessary, to achieve some measure of balance, otherwise workers would have been overwhelmed by the high levels of concentration of capital (Shin Yamada, 1995 - interview). Moreover, organised labour actively sought a more liberal legislative framework to overcome the disabilities that had been inflicted upon it by the military regime during the war years.

But such unique factors are still did not make Japan immune from international pressures. Because the developmental Japanese state co-ordinated the international orientation of larger corporations since 1954, it has been able to withstand some of the international pressures to restructure its labour relations regime (Wade, 1996). But the accelerated liberalisation that it now faces seriously reduces this capacity. Moreover, because senior bureaucrats move between the premier state agencies and top corporations, the diffusion of state policy and conventional industrial relations conventions through them into the global arena has become more constrained. As a consequence, differences in industrial relations practises in Japanese MNE's located in Japan and abroad have become more varied (Smith, 1994a and b). Economic globalisation has thus induced variabilities in modes of labour regulation within Japanese MNE's globally. In this manner, economic internationalisation since 1973 especially has increased the competitive pressures on workers in all Japanese enterprises.

Japan offers an example of this process, as even core workers are now under increasing pressure to lower their real wages and accept ever longer and more intensive work times in order to protect a lifetime employment which itself is increasingly insecure ... The reason Japanese firms give for not raising wages will sound familiar: A recent Japanese Federation of Employers Association report said a wage hike 'would invite a loss of international competitive force and deindustrialisation (quoted in Burkett and Landsberg, 1996:77).'<sup>18</sup>

However, the impact of global forces upon approaches to labour regulation ought not to be overestimated. In spite of substantial international pressures, the state has continued to

underwrite reforms (Wade, 1996). The three pillars of the new economic package unveiled in 1995 are: boosting public works spending to spur domestic demand, promoting structural economic reforms and resolving pressing issues hindering growth such as a fall in property values (*Japan Times*, 21/9/95; 1 and 3). While these reforms have been eclipsed by the unveiling of the big-bang package of reforms announced by the new LDP government in 1996, the level of state subsidisation has not decreased substantially (*Nikkei Weekly*, 4/11/96: 1-3; and 25/11/96 1 and 5; *Japan Times*, 6/11/96: 1). These observations have consequences for Japan's industrial relations system. Because of a continuing high profile role of state agencies in co-ordinating the international interests of large corporations, and because the level of protection remains high, large corporations have found it politically difficult to liberalise internal labour markets and thus reduce the influence of collective labour institutions. So while the state has not directly intervene in employer and organised labour relations, it continues to underwrite those relations by maintaining protective regimes. In this manner, both Japanese corporations and organised labour have managed to maintain their support for an enterprise based system even under the increasing strains of a global competition imperatives (Iganuchi, 1996, interview).<sup>19</sup>

Trade liberalisation, is premised upon increased labour market flexibility which inevitably required reduced direct regulation of labour markets (World Bank, 1995b). Over-regulation was a primary feature of Japan's enterprise based system until the early 1990s. Unique to the Japanese mode of labour regulation was the way internal labour markets were organised through the complex supplier networks. By transferring the burden of flexibility away from core units of production, a high level of regulation could be sustained – even during the phase of accelerated internationalisation. This gave Japanese corporations distinct advantages over non-Japanese competitors. Deregulation is thus also aimed at de-linking the complicated web of 'anti-global' state/corporations and labour networks that have evolved over the past two decades. A combined response against the deregulatory thrust through the neo-corporatist institutions both after the 1973 crisis and during the post-bubble adjustments marks a political response to global exigencies in this respect.

In spite of these considerations, the new LDP Government has signalled major reforms in the area of labour regulation. This has pressured union federations to seek pre-emptive alliances in the Diet (parliament). Reforms have also opened new lines of contestation within state institutions. While the Ministry for Labour favours a high level of regulation, the Ministry of Trade and Commerce and the Finance Ministry favour greater deregulation in the labour

markets. Thus economic globalisation has transformed the internal architecture of the Japanese state, with the differentiation noted above exemplifying the thrust of this transformation. This also demonstrates that state and labour strategies can be quite contradictory; as exemplified by MITI's support for further deregulation and the promotion of neo-corporatism conjunctly.

These transformations have directly affected trade unions. Declining union membership, shift of Japanese FDI abroad and relocation of even the smaller and medium scale enterprises to low cost economies illustrate the diverse nature of these impacts. This is not to argue that economic globalisation and declining union densities are directly related. I have argued that declining densities can be attributed to a range of factors, not the least of which was the high degree of concentration of capital.

In response to such declines, union strategies have become more diversified. Large unions in large enterprises such as Nissan, have been able to maintain effectively compulsory unionism not only within the core enterprises, but in many of their supplier networks as well. Such showcase enterprise unions often had an earlier history of failed radicalism in the 1950's. However, their radical traits have not been fully erased, even though current unions in Nissan were set up as:

a company controlled union with the assistance of white-collar workers and blue-collar supervisors, ... and it became an integral part of the personnel department (Wad, 1996:29).

It is also clear that many enterprise unions have been regaining their autonomy (Benson, 1995). From this standpoint, exigencies of economic internationalisation have both aided and constrained this process.

Most new unions which emerged from the 1950 phase of anti-unionism became closely aligned with their enterprises. The crushing of independent unionism in the 1950s dovetailed with a wider strategy on part of the US to hive off workplaces as potential sites of class-conflict. At the same time, this broader strategy aimed to secure an industrial relations system that promoted productivity gains while keeping in check the re-emergence of the mighty *zaibatsus*. In this way Japan's tradition of independent and militant shopfloor unionism, thus faced a second blow within a space of two decades; the earlier one being the crushing and co-opting of the independent unions by the military regime prior to the second world war.

By externalising anti-autonomous union agenda, large enterprises were able to act without explicit reference to organised labour during the reconstruction period (Makoto, 1996). A sustained effort to weaken independent unions was blamed, firstly, on the demands of the

occupying power, and, secondly, the need to attain economic goals (export growth, international competitiveness) that were required of Japan. As a result of these attacks on independent unionism, smaller and more independent unions have persistently had to depend upon the higher courts for their survival (Katayanagi, 1996: 244-248).

The declining union density has also attracted substantial interest. The explanations for decline in union membership are quite varied. Given that enterprise unions fail to reach non-core (and hence the flexible employees) within their own enterprises, the chances that they will reach out to employees in other enterprises are substantially lower. Thus as an organisational form, these unions face acute difficulties in organising the expanding non-core sectors. Such union structures are a deliberate, rather than a chance feature. They are the consequence of deliberate state strategies in the 1950s and they underwrite the organisation of Japan's political economy. Moreover, the decline in union membership is in part attributed to major privatisation programmes between 1975 and 1995 in the state sector, as well as the structural transformations in the Japanese economy. This has included the increased labour force participation rates for women, the relocation of Japanese plants abroad, and the sustained efforts to weaken the remaining industrial unions. Unions experienced an overall decline of 7 percent between 1975 and 1990 and a further estimated decline of 13 percent between 1992 and the end of 1995 (JIL, 1995). This decline has meant that organised labour has had to change its tactics and bargaining strategies especially during its response to the most recent economic crisis.

### **5.5 Organised labour's contest for influence in a decentralised setting**

During the post-war period, Japan's labour movement passed through three distinct but overlapping phases, revolutionary unionism (1946-1950), industrial unionism (1950 to 1965) (Gordon, 1996) and enterprise unionism (1965 to the early 1990s) (Kihoshi, 1992). In the 1990s unions are evolving in ways that appear to be both ambiguous and often contradictory. A decentralising tendency has been observable since the 1960s. This tendency was accelerated somewhat after the employment adjustment reforms between 1973 and 1975. However, unions have persistently contested this decentralising tendency. But this decentralisation contrasts with the centralising tendencies associated with corporatism already discussed.

By the early 1990s, Japan clearly possessed one of the most decentralised industrial relations systems. This level of decentralisation was a product of the mode of labour regulation that evolved during its occupation. Its embeddedness, thereafter, rested upon a comprehensive

campaign to wipe out the militant fringes of organised labour. This ensured that corporatist and social democratic forms of labour/state institutional relations could develop speedily once the radical phase of unionism had been contained (Makoto, 1996).

Given a highly restrictive environment for organised labour and its failure to secure improvements via political support from Domei and Sohyo-sponsored politicians for most of the 1970s, union strategies shifted in the 1990s. First, there was the growing support within unions for the expansion of neo-corporatist arrangements. Second, there was an acceleration of pressures towards centralisation of labour organisation at the national as well as sectoral levels. Loose inter-union co-ordination for 'shunto' purposes gave way to more stable industry and sectoral labour alliances in the late 1980s (Nakamura and Nitta, 1995). Both these responses also illustrate how unions have chosen to respond to pressures of economic internationalisation.

The formation of Rengo (Japan Trade Union Congress) in 1989 as a more unified labour association opened new possibilities. Before the unification:

Sohyo (the General Council of Trade Unions of Japan), Japan's largest national centre of labour unions and Domei (Japan Confederation of Labour), the second largest had strong ties to the Japan Socialist Party (JSP) and the Democratic Socialist Party (DSP), respectively. It is no exaggeration to say that both parties depended almost entirely on individual national centres (Nitta, 1993: 137).

During this period, inter-party competition had intensified and recreated inter-union rivalries. This lesson was not lost upon Rengo when it was convened as the new national centre. A distancing between political parties and organised labour was seen as necessary to maintain organised labour's new found unity. As a result, the emergence of a new national centre and the subsequent loss of direct political leverage within the Diet created an interest representation lacunae which was filled by the neo-corporatist institutions. The second effect of labour's centralisation was the homogenisation of labour-policies of the main political parties (LDP and JSP). Labour policies became a less important mechanism for electoral mobilisation. This made it possible for state institutions to begin to directly deal with organised labour. To an extent, the centralising tendency was aided by the perception that the numerical expansion of the more moderate private sector unions had peaked. By the late 1980s, employment expansion in the core manufacturing sectors had also subsided. These sectors had provided the backbone of the private sector unionism.

However, this centralising tendency continued to be challenged by 'communist and other left wing unions that did not to affiliate with Rengo' at its formation (Williamson, 1994: 59). A



radical segment of Sohyo established itself as Zenroren (National Confederation of Trade Unions) on the same day as the new Rengo was set up. By 1993, it had approximately 1 million employees (as opposed to 8 million for Rengo), mainly drawn from the public sector unions (teachers, medical workers' unions, local government unions). It maintained its close connections with the Japanese Communist Party (JCP) and remained 'militantly anti-capitalist and strongly critical of Rengo for collaborating with big business and government' (Williamson, 1994: 86-88). Public sector restructuring has both fuelled labour militancy in this sector and contributed to its declining membership base. In contrast to the radical Zenrokyo, more moderate public sector unions set up the Sohyo (National Trade Union Council of Japan) in 1989.

Overall, the strengthened national organisation of labour has affected trade union configuration by promoting stronger industry federations and de-linking organised labour from party political processes. However, the different forms of enterprise unionism have remained the mainstay. As a result, labour's responses to changing state strategies for labour regulation remained more effective at the enterprise level and its political strategies remain diffused.

Although enterprise unions are not unique to Japan, their prevalence clearly is unusual. Over 80 percent of all union members belong to more than 70,000 enterprise unions. Dismissing the common perception of enterprise unions as homogeneous, Benson (1996: 374) outlines a typology that divided enterprise unions into 'company unions, enterprise unions, oligarchic unions and independent unions', with company unions being most prevalent.<sup>20</sup> Many western scholars and unionists have condemned enterprise unions as tame, employer-led and unable to pursue political projects on behalf of labour. This is shown to be problematic:

Japanese enterprise unions evolved to protect and enhance the interests of a particular group of workers, the regular employees of large corporations. These unions have fulfilled this function very well. A web of personal and institutional relationships harmonises the economic interests of workers and employers, focuses on mutual survival, and reflects the acceptance of a shared destiny... The relationships could be characterised (either) as co-management through consensus making or as manipulation and domination by corporate management. ... Among regular employees, trust in this system is being tested during the recession of the 1990s. To date, the pain associated with downsizing has been felt mostly by those employees not represented by enterprise unions. Additionally, cost cutting pressures have been transmitted down through the layers of affiliated, non-union subcontractors (Miller and Amno, 1995: 47).

While the majority of enterprises have one union only, Japan's industrial structure has retarded the prospects for a considerable expansion of enterprise unionism in spite of the security of the 'closed shop' (Benson, 1995: 88). This is so because 'Japan is a nation of small scale firms; more

than 80 percent of the labour force are employed at companies with 300 or fewer employees'. The small and medium sized enterprises simply cannot provide the critical mass of membership required for financial autonomy. An increasing number of these are located in the expanding service sector where union penetration is less than 15 percent and falling (Miller and Amano, 1995:45-47).<sup>21</sup>

Small and independent unions were often victims of harsh, aggressive tactics on the part of larger unions. The use of underground gangs against them was common in the 1960s, though this practice has subsided in recent years. Labour militancy was not, thus contained merely through neo-corporatism and workplace co-optation, but was also a product of direct union coercion. In spite of this, militant and radical fragments of trade unionism have remained strong and this has translated into direct union influences in the legislature. Moreover, the proportional representation system introduced for the first time in the 1996 general elections has broadened the direct influence of union electoral colleges, although this is fairly dispersed. These have two implications. Firstly, the enterprise-based unions continue to be exposed to harsh and aggressive anti-union strategies and their shop-floor level of organisation make them vulnerable even under the best of circumstances. When the enterprises are small, these vulnerabilities are exacerbated. Secondly, labour's political and national strategies have worked to minimise such vulnerabilities. In this regard, a largely enterprise-based system also offers prospects for labour to mediate the harsh impacts of economic globalisation. However, organised labour cannot endlessly transfer the costs and burden of reform to workers outside the organisational umbrella:

The willingness of unions to enter into various forms of co-operative arrangements with management may represent a series of strategic decisions and trade-offs by unions. ... "Japanese unions have shifted their attention from the distributive or egalitarian interests of individual workers to administering personnel policies on behalf of management in the name of higher incomes and a larger pie for all workers". In addition, Japanese unions more frequently exist in larger enterprises and usually recruit only full-time regular employees. The remaining workers, often temporary, part-time or women are denied the protection of unions. The existence of such a peripheral work force provides flexibility for larger enterprises and may well be the reason why unions have been able to bargain more successfully (Benson, 1995: 89).<sup>22</sup>

It is thus relevant to look both at labour's strategies and its organisational forms. The enterprise-based system has generally worked well as far as membership are concerned. This approach also allowed large well-organised enterprises to shift union-distortions onto the supplier networks and the hierarchy of peripheral labour. Subsequently, the dominant form of trade unionism in Japan also appears to be further driving, rather than helping reduce labour market segmentation.

Because, foundational principles such as employment security for unionised labour was not only secured through bargaining but also protected by law, it was difficult for employers to lay off organised sector workers. So long as the state maintained this arrangement, an enterprise union and employer coalition could be sustained, to the disadvantage of non-core employees in the supplier networks and the medium and small-scale enterprises who comprise the majority of wage/salaried workers. Enterprise unions were able to secure real wage increases even during the present recession, at a time when real wages were declining in Japan's competitor economies. Again, while wage policies are co-ordinated by both employers and unions, they reflected also the exclusionary strategies adopted by unions at the enterprise levels. This was backed by a strong legal framework that accorded employment security, privileged collective bargaining and entrenched freedom of association. It allowed enterprise unions to retain their privileged position at the zenith of a complex labour market hierarchy.

As a result, independent enterprise unionism was and is relatively well established in the internationalised sectors of the economy, although far weaker and less autonomous in the medium enterprise sectors. The glossy picture of a co-operative enterprise based-system hides the reality of severe repression and curtailment of independent unionism in these sectors. It also overlooks the diversity of labour relations practice, which has served the interests of a small segment of well-organised core workers, and of the internationalised enterprises and state agencies. Most importantly, an enterprise-based system has enabled capital and the state to proceed with restructuring at a gradual pace, thereby minimising dislocations in the organised sector. An enterprise-based system of labour regulation was well suited to this type of economic restructuring. These unique strengths of enterprise unions and the mutuality of interests between them and employers, was a precondition for private sector-led economic growth.

#### **5:6 Labour regulation in peripheral and informal sectors**

A critical element in the economic restructuring in Japan was the persistence of a flexible, vulnerable workforce at the periphery. This non-core labour not only refers to workers in the small and medium enterprise sectors, but also to those within firms who were not part of the regular workforce and thus excluded from the enterprise unions.

Growth and structural transformation of the Japanese economy were characterised by the persistence and increased complexity of structural dualism ... Structural dualism has, however, not been confined to inter-organisational relations based on firm size. Within larger-scale organisations themselves, different systems of labour relations have been developed that have also had the effect of making the best of Japan's large and

intermediate-sized corporations supremely adaptive to the exigencies of global competition (Carney and O'Kelly, 1990:123).

This flexible non-core workforce has been a defining feature of its labour relations since the end of the 1950s (Nakayama, 1965). Non-core employment or the peripheral labour market is important for a number of reasons. Firstly, it shows that Japanese unions had followed the patterns of their western counterparts, of creating and organising an elite segment of the workforce whose interests were placed ahead of those of the working classes more generally. Moreover, they also explain how adjustments had been relatively easy to implement in Japan during periods such as the 1973 oil and the post-bubble crisis. The costs and burden of adjustment after both these crises were readily transferred to the flexible non-core and disorganised employment sector. By keeping this sector disorganised, capital has been able to respond to global exigencies readily. Japan's industrial relations system anchored to the predominant enterprise mode of labour organisation was crucial in sustaining this arrangement.

This segmentation has influenced the selective patterns noted in Japan's post-war economic development. Chalmers (1989) provides the following presentation of labour market segmentation in Japan.

**Figure 1:0 Core-Peripheral Segmentation Structure: Japan**

	<b>Regular Workers</b>	<b>Non-regular Workers</b>
<b>Large-enterprise sector workers</b>	core workers	temporary and day labour And contract labour
<b>Small and medium enterprise sector workers</b>	core workers in dependent or sub-contracting firms	temporary, day labour, family workers, female workers, contract labour and self employed

(Source: Chalmers, 1989: 19)

This framework needs further clarification, as Chalmers ignores other forms of segmentation that were also prevalent in Japan's labour markets. For example, the increasing numbers of migrant labour were concentrated in a few, and mainly informal sectors. Labour practices in overseas enterprises (based in Japan) and Japanese enterprises were also quite different. Japanese enterprises were able to exclude company-wide trade unions organisation through their supplier

networks, whereas overseas enterprises did not have this option. This gave Japanese enterprises a competitive edge in the home market. The differentiation between protected and more open employment sectors was also significant basis for segmentation.

Finally, the gendered nature of Japanese labour markets deserves particular attention. For example, while part-time employment as a proportion of total wage/salaried employment increased from 6.3 percent in 1960 to 12 percent in 1989, the composition of women within that increased from 43 percent to 75 percent over the same period (JIL, 1993:127-128). Carney and O'Kelly (1990: 123 and 127) further observe:

it is in the complex relationships among core and peripheral systems of labour both between firms of different sizes and within firms, particularly larger ones, that the intersection of economic organisation and gender has determined the structure of women's work and parameters of women's place in the post-war Japanese economic miracle. ... (Women's) place in the rapidly changing economy of post-war Japan; women's increasing importance as a structurally circumscribed group of non-lifetime workers and flexible labour reserve, (was) strategically necessary to the maintenance of the restricted lifetime employment system and the facilitation of structural transition in a rapidly changing economy.

A largely enterprise-based system transfers some of the costs of unionisation onto the peripheral workforce comprised of increasing numbers of women who are also temporary employees. Chalmers (1989: 242-3) concludes

that the implications of enterprise based labour organisation are far reaching, and the effects extend well beyond the organised sector ... By default, the protection, privilege, and advantage associated with organised labour are denied to workers in Japan's largely non-unionised and non-regulated sector.... The operation of enterprise unionism militates against politicisation and the initiation of the broader union movement strategies that may cover issues of concern to non-unionised workers. Such disenfranchised workers, ... have little capacity themselves to express their interests in these issues or have them placed on agendas of major industrial unions and union federations.

Peripheral labour markets thus underline several features relevant to the broader focus of this study. Firstly, given their low levels of unionisation, competitive pressures through lower wage costs are normally borne by this sector. This creates tensions between unionised and non-unionised sectors within enterprises. Secondly, during periods of downturns, and restructuring more generally, the non-core segment had provided the flexibility for "employment adjustment". In this manner, the regulated and non-regulated sectors form part of a single continuum, an internal labour market that is segmented along occupational lines and where segmentation is reaffirmed through labour's organisational structures. Thirdly, international pressures are also

better absorbed via the flexibility of the peripheral sectors. International competitiveness is secured through labour policy changes mainly in deregulated non-core labour markets. Thus the Japanese state was able to facilitate the movement of even the smaller and medium scale enterprises into Asia to deal with the politically sensitive trade deficits without drawing opposition from organised labour.

The kinds of flexibilities that the peripheral sectors provided support a more conventional neo-liberal type of policy orientation in terms of their consequences. Because it is historically rooted, the pressures for labour policy reforms have been less acute in the current economic crisis.<sup>23</sup> Clearly, differentiated labour market strategies on part of capital and labour have assisted the accelerated internationalisation of Japan's economy. It is evident that such segmentation within labour markets rests upon a precariously balanced power configuration between state agencies, trade unions and capital. If economic internationalisation engenders increased vulnerability of the core sectors, this balance of power may shift, leading to a re-radicalisation of organised labour. This configuration of power was central to holding together a differentiated regime of regulation. It would appear, however, that the differentiating outcomes that result from the process of economic internationalisation have been slowly eating away at the foundations of this configuration.

Overall, therefore, this chapter rejected the notion that the enterprise-based system in Japan is a normative caricature of the predominant mode of labour regulation in Japan in the 1990s. It also rejected the notion that enterprise unions have been management controlled. Enterprise unions have clearly secured significant gains. The wages of workers in the organised sectors are among the highest in the world, and real wage increases have been maintained even in the present depressed environment. Unions have developed industrial federations and coalitions through which industrial and economic policy at a number of levels are directly influenced. Moreover, unions have also shifted their attention to questions of quality of working life (Rengo, 1995). This suggests that enterprise unions are gradually framing national labour policies largely through the new corporatist institutions. At the same time, union autonomy at many workplaces has been expanding.

However, recent efforts at rekindling national centres appears to have constrained the scope of enterprise unionism in Japan, especially as workplace issues become subject to industry or national negotiations. When transposed upon a wider regional context of union decline (Frenkel and Harrod, eds. 1995), it becomes evident that enterprise unionism will face acute

difficulties in organising new firms. Firms not rooted in Japan's social milieu and without extensive state support can do little to hold together the compacts upon which its enterprise-based system rests.

As the internationalisation of the Japanese economy proceeds, there is likely to be an increase in the number of non-Japanese enterprises operating in Japan. This is likely to impact upon existing union configurations, as these enterprises are likely to be concentrated in non-union areas, resulting in a further deterioration in union membership rates (Tsuru and Rebitzer, 1995: 482). International corporations compete more directly without complementary support in domestic markets. As a result, there is less pressure upon them to sustain the existing mode of labour regulation. Trade liberalisation inevitably exposes corporations and hence labour to global markets more directly, thus the externalised interest of promoting international competitiveness begins to apply more closely at the workplace level. Consequently, Japan's regulationist enterprise-based system of labour relations is likely to be exposed to the vagaries of economic globalisation. What is different about Japan, however, is that this process of economic change is slow and continues to be highly co-ordinated. The apparently contradictory rise of neo-corporatism in the 1990s exemplifies this tendency and its attendant contradictions. To assess the prospects for labour as a result of accelerated internationalisation, we need to understand how state and market relationships have been transformed. Moreover, we need to understand how the political influences of labour were co-opted to support the transformation process itself.

Nowhere are the consequences of economic internationalisation and the limits of enterprise unionism more apparent than with regard to wage setting. Japan's showcase *nenko system* of co-ordination at the industry level of wage bargaining by numerous enterprise unions delivered real improvements in wage and working conditions almost persistently over the past two decades. Central co-ordination was further boosted through the emergence of a unified RENGO in 1989. In spite of both these developments, this mode of regulation masked the differences between internationally trading and domestic orientated sectors. Accelerated internationalisation of its economy has helped to expose these differences. For example, in 1996, the annual *shunto* had failed to produce a more homogenous wage outcome as the

highest pay awards clearly went to internationally competitive industries such as cars, steel and electronics and lower awards to domestically orientated or high cost sectors such as heavy engineering and power supply (Financial Times, 1/4/97: 4).

The emergence of such differentiation has led to a partial breakdown of the industry-wide awards, a strategy through which otherwise weak enterprise unions had maximised their bargaining powers. Indeed for an increasingly large sector of the economy, the *shunto* has become irrelevant (*Financial Times*, 1/4/97:5). Prospectively, the unique way in which an enterprise-based and dominated mode of worker organisation had mitigated their disadvantages maybe in rapid decline. By promoting the internationalisation of industry, the state is undermining its own commitment to the unique form of corporatism that it engendered. Paradoxically organised labour is a party to these transformations, and most affected by it at the same time.

### **5:7 Labour's Responses: reorganisation and militancy in the state sector**

Japan's state sector offers an interesting site where the associations between the process of economic internationalisation and labour regulation can be viewed. The state sector is small by relative international standards. The government's fiscal expenditures were below 20 percent of GNP, and ownership of key industries has been relatively small (OECD, 1995a). In areas such as fiscal expenditure, state ownership and taxation, the Japanese government might be described as minimalist, rather than dirigiste' (Ravenhill, ed. 1995: 351-353). In many ways, Japan led the world in privatisation when the Meiji state sold off a significant number of public corporations to promote indigenous industrialisation in the 1890s (Yanamoto, 1993: 338). The second wave of privatisation occurred in the post-war period. By re-examining the state sector and labour's response to changes within it, post-war continuities in state regulation of labour can be better understood.

In the post-war period, the US feared the rising labour militancy in the public sector. The involvement of the public sector unions in the 1947 strike was seen as a political constraint to Japan's economic reconstruction. In July 1948, MacArthur advised the Japanese government to split off the government railways and monopoly enterprises as separate public corporations and let their employees bargain collectively, although not strike. Instead, mediation and arbitration procedures were to be set up ... The remaining three-quarters of government employees, including 700,000 communications workers and teachers, could now no longer bargain collectively, depriving them of a right they had *de facto* for three years and *de jure* for two (Tsuru, 1996: 31).

For the occupying power, it was clear from the outset that the political potential of public sector workers had to be constrained. These stiff reforms, according to the then US Secretary for State,



Saltzman were to lead to a polarisation of politics in Japan, taking the form of radicalisation of state sector labour associations, and a strengthening of their association with left-wing political parties. The public sector unions' direct challenges to the state to set it apart from private sector unions. The SOHYO and RENGO divisions emerged from the differential political orientation of the public and private sector workers. Because of their radical orientation, both the occupying power, and the single party LDP government that ruled Japan almost continuously from the 1950s until the mid -1980s deployed a series of labour market, legislative and associated measures aimed at constraining the political strength and organisation of public sector workers.

This approach is further illustrated during the decade of administrative reform (1981 to 1987) when the third wave of privatisations occurred. This wave occurred during a period of boom - rather than economic crisis, although key public sector corporations such as the Japan Railways (JR) were in severe financial difficulties. By 1975, JR had run up a deficit of \$US9.1 billion. When the Public Corporation and Government Workers Unions began an 8-day strike to restore the right to strike at this time, public opinion turned against it. A decision was eventually taken in 1986 to privatise the railways, by which time the JR had run up a massive debt to the tune of \$215 billion (Rengo, n.d. mimeo). Kume (1998; 16) observed that:

through privatisation, the national railway eliminated room for political and union-brokered intervention and established autonomy for corporate management. If the railways were to remain as an organisation of about 280,000 employees, the dependency of that organisation (and its union) on political favours would also remain.

Significantly, since its break up almost a decade ago, reorganised railway workers unions have not staged a single strike. This showcase privatisation illustrates the dilemmas and contradictions of a state co-ordinated approach to economic development. JR and other privatisations have 'hardly brought about deregulation' and the internal labour market remains heavily regulated.<sup>24</sup> This was because privatisation was a 'product of compromise between the government, the LDP, the business world (Keidanren), and the Japan Socialist Party' (Yamamoto, 1993: 350) and its transition to a full market-driven sector remained contested.<sup>25</sup> However, the impact of privatisation on labour fragmentation is very clear.

As a result of the considerable benefits obtained from labour's fragmentation, two other interest associations appear to have made considerable gains from the lucrative privatisation introduced as part of the 1980s administrative reform project. They were the premier state agencies and Japanese and US industry.

In determining the profile of privatisation in the 1980s, the role of foreign pressure

should not be underestimated. The US in particular felt that privatisation could open new opportunities by increasing competition and accelerating market growth. Japan had to concede to America's pressure in order to alleviate escalating trade friction.... (More), in the mid-1980s Japanese capital markets developed rapidly and sales and public assets promised to be highly profitable to the state, as well as to the financial intermediaries involved in underwriting them (Yamamoto, 1993: 339).

These twin pressures of internationalisation and a boom in capital markets created the unique circumstances in which Japan's most recent privatisation programmes commenced. The fact that the impact of these pressures was felt most acutely by organised labour suggests linkages between economic globalisation (in this case represented by pressures to liberalise domestic markets), capital markets and labour regulation. Such linkages will need to be studied in far greater depth and on a case by case basis. My task here was to show that the inter-linkages were operationalised by and through state agencies. It is not simply the case that privatisations have been spurred by economic crisis as the case of JR may suggest. However, because privatisation did not lead to a completely deregulated labour market, organised labour had managed to preserve some of its bases. A distinctive labour market segmentation also ensured that public sector labour militancy did not envelop the organised labour movement as a whole. Moreover, the predominantly moderate fragment of organised labour stood ambivalently by as the restructuring commenced, because as private sector unions they stood to gain from that process through increased membership.

The key trends in economic reform and approaches to labour regulations since the early 1990s are summarised in Table 3:0 on the next page.

**Table 3:0 Economic Restructuring and labour regulation in Japan: 1973-1995**

Key transformations and outcomes	1973-1989	1990-1995
<b>Impetus for change</b>	Oil crisis between 1973 and 1975 Increased US and external pressure for opening-up sectors of the domestic economy	'big-bubble' crisis, collapse of property prices, large-scale bankruptcies, financial sector bailout and intensified external pressures for liberalisation
<b>Economic policy change</b>	<ul style="list-style-type: none"> <li>a. 'Employment adjustment programmes' introduced.</li> <li>b. New phase of strategic privatisations commence and state support for sunset industries.</li> <li>c. Modest liberalisation in the finance sector</li> </ul>	<ul style="list-style-type: none"> <li>a. 'Big bang' reforms aimed at rapid liberalisation in the finance sector and rapid withdrawal of barriers to trade</li> <li>b. Large scale privatisations and adjustments programmes introduced in the key economic sectors</li> <li>c. Reform of employment in the state sector commences.</li> </ul>
<b>Restructuring of state institutions</b>	<ul style="list-style-type: none"> <li>- the consolidation of MITI and Economic Planning Agency as the premier policy institutions</li> <li>- state control of strategic industries in the rail, telecom etc. reduced</li> <li>- emergence of a highly centralised government system</li> <li>- the consolidation of the 'developmental state'</li> </ul>	<ul style="list-style-type: none"> <li>- the organising and policy monopoly of agencies such as MITI and EPA further consolidated.</li> <li>- Limited autonomy granted to the treasury, and measures to protect it from political pressures introduced.</li> <li>- The centralised nature of government replaced by weak and fluid governing coalitions.</li> </ul>
<b>Outcomes</b>	<ul style="list-style-type: none"> <li>a. Japanese economy experiences an average of 7 percent real expansion in GDP</li> <li>b. Large scale increase in the export of Japanese capital and relocation of Japanese industry (mainly SME's) to Asia.</li> <li>c. Strategic privatisations considerably weaken the remaining left-oriented industrial unions</li> <li>d. Parties aligned to organised labour suffer successive electoral setbacks.</li> <li>e. An expansion of neo-corporatist arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>a. Growth slows down to 2 percent and the economy enters serious recession at the end of 1995.</li> <li>b. The export of private Japanese capital increases, but the relocation of industry slows down.</li> <li>c. More general privatisation programmes introduced.</li> <li>d. Labour market deregulation measures introduced especially in the crisis sectors</li> <li>e. The corporatist settlements hollowed out by new measures. Unions adopt a range of strategic responses.</li> </ul>

The significant changes between the two periods have unsettled the mechanisms through which the Japanese state has managed state and capital contests honed during the high growth years. This suggests that Japan has entered a new phase of re-composition of state and labour relationships. The ways in which this occurs may have some bearing on the pace and strategic

directions for further internationalisation.

### **5:8 Social democracy and the problem of legitimization**

Japan's labour regulation framework rested upon a distinct institutional framework. The Japanese post-war state had skilfully masked a fairly closed political system until the mid-1970s. It was the mounting pressures against its rising trade surpluses that led to more careful scrutiny of its political institutions. Large corporations had a direct stake in the political system through sponsorship of political parties and candidates. Borthwick observed that:

big business is not a special interest group in Japan; it is the prime beneficiary and virtual *raison d'être* of the Japanese system, as the theory of capitalist development state stipulates. For that reason it is meaningless to speak of the role of big business in Japanese politics; the two are indistinguishable (quoted in Tabb, 1995).

To some extent, its membership of the OECD and the IMF opened Japanese industry, industrial policy and the state to greater international scrutiny, focussing on restricted accumulation policies created by the post-war developmentalist state. This was largely so because Japanese industry sought to expand trade in a manner that did not dilute the highly centralised interests of a few large corporations. Moreover, OECD membership came with new obligations with respect to trade and exchange rate policies most specifically (Tsuru, 1996).

In understanding the post 1960s internationalisation of the Japanese economy, several factors were important. The US had wanted stability in the immediate post-war period. This depended upon the continuing dominance of the pre-war industrial and political elite. Thus, both the emperor and pre-war industrial houses, such as Mitsukoshi, emerged as crucial stabilising influences. At the same time, the US wanted to promote a democratic regime. A very specific form of inter-linkage between the power structures of the pre-war period and a new one dominated by political parties evolved subsequently. Within and inside the political system, parties came to be held to ransom by strong factions with clearly identifiable support and interest group bases. External sponsorship of factions came to be dominated by industry (both in the internationalised manufacturing, industrial and service sectors as well as the protected rural and small to medium enterprise sectors). A defining character of Japan's political institutions since its rapid internationalisation in the 1960s has been the persistent effort to reconcile the contradictory pressures of the protected (agricultural, rural and small and medium enterprise sectors) and the industrial/manufacturing and service sector enterprises who trade both

domestically, but increasingly globally. This was a highly political process, shaping the contours of parliamentary politics and defining its weak democratic credentials.

The post-war Japanese state was quite successful in managing these contradictory pressures. Labour was not excluded from the political system either. Indeed it retained strong organisational links both through its association with the Japan Socialist Party (JSP), and more indirectly through union sponsorship of individual Diet members. Because the JSP remained in opposition for almost the entire period under review, Japanese labour did not enjoy the luxury of Labour-influenced governments. After the crushing blows to militant labour in the 1950's, indirect access to power via expanding corporatist agencies won the support of both the Sohyo and the Domei. Despite these, unions played politics on a highly lopsided playing field except briefly during the time of the short-lived socialist government in the 1950s. The LDP maintained control over the Diet until the mid-1990s when Japan's institutions come under aggravated international scrutiny. While the LDP's near complete control in the Diet has waned, political shifts have not occurred on a scale where the gains made by international and national capital during the period of administrative and economic reform could be directly reversed.

Organised labour's political fortunes have improved through its increased access to decision making. This is counter balanced by the fact the trade liberalisation has freed capital from high degrees of state regulation at the same time. Overall, the implicit social settlement upon which labour regulation has rested from the early 1960s has been thrown into question as a consequence of the accelerated internationalisation of Japan's economy. A rapid reconfiguration of state/market relations is underway. The challenge for labour is whether it will be able to withstand and moderate the influences of the neo-liberal policy framework of the contemporary state. These are closely tied to the debate about legitimisation of state strategies and its changing modes of regulation of labour. A more open market ethos has transformed Japan's social democratic processes through which state/market relations are reconfigured. Reconfiguration does not necessarily aid the legitimisation of new modes of labour regulation (Price, 1997). It often complicated that mode of regulation. This presents itself as a paradox for both state and capital in contemporary Japan. In the mid-1990s, the Japanese state confronted two distinct challenges. Firstly, the society witnessed an expansion of individual rights and freedoms through constitutional and legal developments. On the other hand, it confronted the problem of limiting in the growing autonomy of enterprise based organisations of labour so as to enable Japanese enterprises to meet serious economic challenges. These developments have

the potential of tearing apart the narrow corporatist mechanisms upon which its regime of labour regulation is rooted.

### 5:9 Conclusion

Economic globalisation in Japan has occurred within the context of a high degree of state co-ordination. This co-ordination involved selected agencies of the state that often held competing interests. The internal fragmentation and contestation was aggravated during the decades of accelerated economic internationalisation, beginning in the early 1970s. During this period, the transmission belt nature of the state was re-defined. State agencies succeeded in transmitting an agenda in which Japan's internationalisation could be achieved in a regulated manner, thereby maintaining its compacts between national capital and large segments of organised labour. This compact and consensus stands fundamentally exposed by the economic challenges that have developed in the post-bubble era. By further fracturing the labour markets and hence further disadvantaging peripheral segments of labour, the costs of reform have been transferred onto those outside the organised structures within a dominant enterprise based regime of regulation. Their exclusion generates new and differentiated forms of tensions on the political system as a whole.

Japan's post-war internationalisation was managed through a complex system of labour regulation characterised by strong internal labour markets within large corporations and allied small and medium enterprises. Segmented patterns of labour regulation evolved subsequently leading to the hegemony of moderate modes of labour organisation. An enterprise-based system of labour relations aided this and also accorded a very high level of flexibility to elite segments of labour and helped large corporations deal with the vagaries of economic globalisation.

Labour in Japan strongly featured in the process of its economic internationalisation by internalising the challenge and constraints imposed by the international system. Thus international competitiveness, the pursuance of an anti-inflationary climate among others came to represent the political goals of labour as well. But by the mid-1990's, major reforms were clearly underway. The growing autonomy of capital markets and Japanese corporations had hollowed out the possibility of a return to neo-corporatist forms of regulation. This was further exacerbated by the trend of greater autonomy for even the small and medium scale enterprises. As Japanese capital moved off shore, for both political and economic reasons, a nationally managed approach to economic development, the incentives for neo-corporatism and capacity

for state co-ordination have been reduced.

This chapter has shown that economic policy framework at the heart of which lay a segmented labour market arrangement aided the reconstruction and massive expansion of the post-war Japanese economy. Moreover, its accelerated economic growth has to be attributed to the ways in which domestic factors were harnessed as the 1950 to 1973 boom 'was not export led, though exports helped'. Under such a controlled system, labour could negotiate real advances. This was to change in the 1990s when the system overall came under severe global pressures. State/market relations were to be subsequently altered in ways that were often contradictory and ambiguous. This exemplifies the complicated nature of the process of economic globalisation and its uneven impacts and consequences.

## Chapter 5: Endnotes

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1. The term 'developmental state' is used quite distinctly from its more common late-developer orientation in Tabb (1995) and Appelbaum and Hendersen (1992). It indicates at best the tendency of planning, market coordination and high levels of sectoral regulation through state agencies.
2. A MITI policy panel for example announced 133 reform proposals as part of a restructuring package (See Ishizawa, "MITI Panel calls for strong medicine", in Nikkei Weekly, 2/12/96: 3). Further reforms were announced in late 1997 (see Japan Echo, various issues).
3. Employment adjustment has a fairly specific connotation in Japan. It refers to the capacity for enterprises to manipulate the internal labour markets to minimise the impacts of recession. This most commonly takes the form of *shukko* - i.e. transfer and movement of employees in a network of firms (Sugeno, 1994). Administrative reform refers to restructuring of state agencies, and the reform of their policy-decision making procedures.
4. Several years prior to the Meiji restoration, 'European countries and the USA had threatened Japan with their overwhelming military power in order to open its ports and allow trade. Japan had to accept unequal treaties ... which allowed the USA, the UK, The Netherlands, France, and Russia extraterritorial privileges and deprived Japan of the right to set its tariffs' (Odagiri and Goto, 1996: 17). In the post-war period, policy makers were again conscious of the fact that the US had forced Japan into a similar corner. This has bred an orientation best described as that of economic nationalism.
5. Joseph Dodge, a Detroit Banker represented President Truman in promoting a set of adjustment policies to the Japanese Government, after the direct influence of General MacArthur (Head of the GHQ) over economic policy had been circumscribed. Because the Japanese Cabinet had rejected an earlier set of stabilisation measures, the dispatch of Dodge represented the re-assertion of US economic interests over the Japanese political system. Dodge's nine point plan aimed to achieve a balanced budget, strengthen the program of tax collection, restrict credit expansion, achieve wage stability, strengthen the price control programs, improve the operation of foreign trade control, and promote food production and raw material production domestically while diluting the regulations on trade more generally (Tsuru, 1996: 47). Its overall effect was to hollow Japan's capacity to pursue neo-mercantilist policies inspired by a sense of economic nationalism.
6. Schonberger noted that 'even without the intervention of American business interests in the zaibatsu dispute the opposition of Japanese capitalist class to deconcentration would have influenced American state managers to scuttle the program' (quoted in Tsuru, 1996: 42).



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7. Okuchi et.al. (1973) makes the argument that many non-targeted and small and medium scale sectors such as precision equipment and consumer electronics also attained high levels of international competitiveness. He concluded that 'the success of non-targeted industries and the problems in certain targeted sectors suggest that the reasons for Japan's spectacular track record goes well beyond the realm of industrial policy, into broad areas of the political economy as a whole' (p.69).

8. Both unions and employer groups also responded with their own vision documents each time a major one was announced by a government agency that affected their interests. NIKKEIREN (The Japanese Federation of Employers' Associations), for example, released its influential 'Report of Research Committee on Labour Problems' in 1988. This report noted that wage levels were the highest in the world and hence international competitiveness required some reconsideration of pay negotiations, the need to reduce consumer prices, and to promote market liberalisation (Nikkeiren, 1988).

9. The 1942 Bank of Japan (BOJ) Law has given rise to a 'strongly control-orientated bank whose independence compares poorly with that of its US and German counterparts' (*Nikkei Weekly*, 18/11/96: 12). Subsequently the BOJ board is often referred to as the 'sleeping board'. The 'big-bang' proposal of reforms have sought to grant the BOJ greater autonomy (*Japan Echo*, December, 1997).

10. *Amakudari* - is a long established practice whereby retiring senior finance/economic planning bureaucrats were appointed to cushy management positions in the industry associations. Through this, industry associations were able to maintain direct influence in state agencies.

11. The *kancho* economist group is responsible for articulating strategic policy papers that are referred to as the 'vision' papers. Interestingly, 'academic economists, who construct and exhibit the imaginary worlds of neoclassical, post-Keynesian and Marxian economic theories have not found many positions of influence in the planning of the economy' (Sheridan, 1993: 207).

12. Moreover, even at the peak of its influence in the mid 1950s, organised labour was spilt down the centre, between a fragment that was hostile to any conciliation with business and one that was more aligned with that development. Such divisions were so bitter, that they effectively undermined the 'socialist government' in the 1950s (Pemple and Tsunekawa, 1995).

13. Other agencies on which Rengo has gained representation include the Council on External Co-operation - jointly convened by the Foreign Ministry, Ministry of Finance and MITI; several specialised MITI councils and Ministry of Labour councils. Since 1990, Rengo has been making direct representation to government on international issues (Wilkinson, 1994: 82-83). See also Dore, R. (1990), "Japan: A Nation Made for Corporatism", in Crouch, C and Dore, R. (Eds.), *Corporatism and Accountability*. Oxford: Clarendon.

14. Depoliticisation here refers to the domination of the Japanese diet by two main

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groups of political parties that were broadly 'pro-business, pro-American and lacking distinctive ideas' (*The Economist*, 1996: 72).

15. This notion of administrative reform has a very particular usage in Japan whose origin lies in the development of 'administrative guidance' during the reconstruction phases. Administrative guidance was a 'method widely used by Government to support and reinforce many sorts of policies, both microeconomic and macroeconomic. It involved the use of influence, advice and persuasion to cause firms or individuals to behave in particular ways that the government believed was desirable (Tsuru, 1996: 96-97). Administrative reforms are usually interpreted as the winding down of such methods.

16. Shirai ed. (1983: xxii) noted that 'some Western labour specialists have formulated and promulgated notions about the distinctive characteristics of Japanese industrial relations that have become established as stereotypes and have tended to circumscribe the further development of research as well as to constrain a balanced understanding of the system'.

17. To an extent, this was replaced by the increased scholarly focus on the diffusion of Japanese industrial relations and management strategies through Japanese TNC's (discussions, Nitta, M. Tokyo, April, 1996). Smith (1994 a and b), for example, has studied employment practices of Japanese MNE's and enterprises in Malaysia.

18. The deindustrialisation issue is now a subject of extensive research within Japan (see JIL 1996 newsletters, for example). In various tripartite machineries, labour has been pressed to consider the lower wage/and employment preservation trade-off (interview Kamenaya, JIL, April, 1996).

19. This argument does not apply to, firstly, those industries for whom the level of state support and scope for administrative guidance has been reduced considerably. It also does not apply to the small-scale sectors and the informal sectors. The point is owed to Prof. Igonuchi (United Nations University, Tokyo).

20. Because enterprise unions identified more closely with their employers, they often also supported the political orientation of their employers. This was so because in a highly protected and closed economy, enterprises depended upon political favours, these inevitably affected labour (Miller and Amano, 1995). With trade liberalisation, such political associations are likely to become less useful for employers.

21. Miller and Amano (1995: 48) conclude that 'in the expanding service sector, a different union model is evolving. ZENSENDOMEI (a former enterprise union) has abandoned its company-specific orientation in order to establish a membership among numerous retail and wholesale employers. This evolving industrial-type union could represent the future of a renewed Japanese labour movement'.

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22. Ironically, the re-centralising tendencies within organised labour are overtly problematic. Because of the elitist nature of enterprise unionism, externalities such as unemployment, wage cuts outside the core employment and other adjustments were of marginal importance to many enterprise unions. However, the unemployment issue has become one of the main agendas for Rengo presently. Neo-corporatist tendencies can pressure Rengo into national wage policies in return for wage-moderation in the core unionised sectors (see for example opening speech by Jinnosuke Ashida - President of Rengo to its 4th Bennial Convention - quoted in RENGO, No. 35, 1995; December).

23. Segmented labour markets also have implications for worker discipline. Wilkinson (1994: 35) observes that 'worker discipline and obedience ... might be best explained by the strong labour market segmentation in the Japanese economy which makes widespread unionisation difficult and might give unionised workers a feeling of being privileged; by the rigorous procedures of selection and indoctrination; by the extensive and direct communication between management and the workforce; by the use of peer pressure via 'team work'; and a detailed surveillance of industrial activities of key employees... Industrial harmony is not a natural state of affairs in Japan. Harmony has been actively created by employers, sometimes with the crucial support of the state, and is re-created on a daily basis through propaganda, peer controls and work place surveillance'.

24. See Tsuru (1996: 205-211) for further discussion of the main privatisations during the administrative reform period that is not examined in this thesis.

25. For example, the very lucrative NTT (Nippon Telegraph and Telephone) remains in government hands almost a decade after its privatisation was first mooted (see Lee, P. "Japan: The Telecom Dilemma", Euromoney, February 1996: 10-12).

## **Chapter Six: Malaysia – Political regulation of labour and accelerated internationalisation**

### **6:0 Introduction**

This chapter expands the principal thesis in relation to Malaysia; a complex developing Asian state that embarked upon a programme of rapid industrialisation in the 1980s. This programme was associated with a noticeable transformation of the role of state during the period of accelerated internationalisation that followed. This chapter examines the ways in which this internationalisation was influenced by economic policy instruments and patterns of state intervention in labour markets. It further examines how labour has featured in the process of economic restructuring that was underwritten by a unique mix of political and labour market instruments.

The theoretical arguments advanced have demonstrated two contradictory themes. They involved the centrality of the state regulation of labour in neo-liberal reforms and the exclusion of the state regulation of labour in the economic globalisation debates. I demonstrate the centrality of labour market strategies to the reorientation of the Malaysian economy. To do so, it was necessary to re-examine the patterns of flow of capital. FDI flows over the past two decades have been concentrated in a few developing states, Malaysia being one of them. The policies and strategies that were deployed by the Malaysian state to achieve this helps inform the theoretical issues raised in this thesis.

This chapter first outlines the historical background to the economic reforms of the 1980s. This includes a discussion of the state-led programme of selective industrialisation and import substitution until 1969, and an outline of export oriented growth following the political upheavals of the late 1960s. The chapter highlights the rise of an ethno-nationalist state committed to a market economy and the redistribution of the rewards of growth by a politically defined ethnic criteria during the 1970s. It then examines how labour regulation was approached by a developmental state in the 1970s and following the economic crisis of the mid-1980s. In the sections that follow, I assess the re-orientation of state's regulation of labour achieved through a combination of labour market and political strategies during a period of an extraordinary high level of economic growth. The chapter concludes by making some observations about the end of the high growth period in the mid-1990s.

### **6:1 Background: Transition from import substitution to export orientation in the 1960s**

Malaysia adds a distinct national variant to this comparative study. It is an example of a state led effort to develop a vibrant open-market economy while continuing to mediate complex domestic pressures during the process of restructuring. Tensions created as a result of accelerated growth created new challenges for both labour and the state. Starting from a disorganised base in early 1970s, both the sphere of contestation and scope for labour to maximise gains during a period of accelerated economic growth were restrictive<sup>1</sup>. Through its dedicated pursuance of accelerated integration, the state moved economic policy out of the arena of political and economic contestation. An armoury of anti-labour strategies backed this. However, in promoting accelerated internationalisation, the state came to rely less on policy instruments in the industrial relations arena, and more on its increasingly deregulated labour markets. The concentrated impacts of economic globalisation generated adverse outcomes in Malaysian labour markets for capital. By regulating and controlling the import of temporary labour, the state re-imposed a combination of discipline and flexibility in an expanding labour market. Moreover, the pursuance of anti-inflationary policies, even in a context of high growth ensured that the costs of economic adjustment were passed onto the labour. Through this the government 'gave priority to growth with price stability' and 'minimised the effects of inflation on resource allocation' (Ministry of Finance, 1992: 3). Through this discussion, I question the validity of the neo-liberal labour market strategies (World Bank, 1996a), commodity chains approach to industrial development (Hendersen and Appelbaum, 1992) and the late developer thesis (Wilkinson, 1994) that are most commonly used to explain Malaysia's rapid economic growth in the 1980s and early 1990s<sup>2</sup>.

Malaysia's industrial development strategies and the context of ethnically segmented labour-market structures has been the subject of many studies (Rasiah, R.1995b; 1996; ILO, 1995a; Ayadurai, 1996; Bowie, 1991). By distancing changes and developments in the labour relations regime from both the global (regional and international trade liberalisation agreements) as well as national factors (role of ethnic pressure groups, regional pressures), explanatory flaws have been observed in these studies. I argue that the interconnectedness between the global and the national is mediated through a range of agencies that have not been analysed adequately. These agencies help explain Malaysia's accelerated

internationalisation and its mode of insertion into the global economic system following economic and political crisis in the late 1960s and late 1980s specifically.

This study also notes that while ethnic politics exerted real influences by creating tensions that required repeated state interventions, their influence in explaining the trajectories of Malaysia's internationalisation should not be overstressed. Ethnic tensions emerged from the situation of ethnic groups in its economy. Thus, the demand for economic parity by Malays was backed by the fact that they had largely remained locked in low-income sectors during the import substitution industrialisation era (ISI) by the end of 1960s. By the late 1960s such exclusion had become the basis for serious political discontent and challenge to the United Malaysian National Organisation's (UMNO) national leadership (Bowie, 1991). Following opposition electoral gains in 1969, these resentments boiled over into racial riots, which led to the declaration of an emergency. This heralded an overtly authoritarian phase of the state and the commencement of a programme aimed at equalising the economic stakes held by different ethnic groups in the economy.<sup>3</sup> Thus, 1969 marks one turning point in Malaysia and represents a unique effort to reposition a national economy with a view towards securing economic advantages for Malays. Such a political equation required even firmer control by the Malay group over the state apparatus. Secondly, such a repositioning took the form of projecting Malaysia as a producer of finished manufactured goods, rather than primary products. This was operationalised through the New Economic Policy (NEP) that emphasised export oriented industrial development.

The NEP came into being after the 1969 emergency. It sought to rapidly internationalise the Malaysian economy. It anticipated that high levels of growth would create economic opportunities that could be targeted for the advancement of Malays. In this respect, the NEP was a state sponsored effort to create a dependent Malay bourgeoisie outside the state sector. The related economic strategies thus defined the form that the state took as well. Ethno-political interventions by a Malay orientated state, however, were also prescribed by global economic exigencies. The analysis of economic internationalisation and state regulation of labour in Malaysia is this were anchored to the political and economic transformations set in motion by the implementation of the NEP. A primary feature of the NEP was its shift from ISI to EOI. This shift was also associated with significant changes in the approach to labour regulation

## **6:2 State and capitalist development after independence**

Pre-colonial Malaysia had experienced a long period of Indian and Arab influence, followed by the Portuguese who arrived in Malacca in 1511, then by the Dutch in 1641. British interests are commonly traced to the lease of Penang by the British East India Company. During this period, Chinese and Indian workers were imported into the emerging commercial agriculture, mining, rubber plantations and trading activities. The system of indentured labourers for the import of Chinese and Indian workers came to an end in 1911 and 1914 respectively. By this time, a multi-ethnic colonial economy had been firmly established. Britain's political control was established across Peninsular Malaysia and Singapore by 1909, which lasted until Japan's invasion during the Second World War. The reassertion of British political hegemony after the war resulted in intensified anti-colonial struggles.<sup>4</sup> The UMNO was formed in 1946 to advance the cause of independence and integration of a unified Malay state. In contrast, the Malaysian Communist Party commenced armed struggle against colonial rule.

An UMNO and Malaysian Chinese Association Alliance secured victory in the 1955 general elections, and power was transferred to this anti-colonial and anti-communist Alliance in 1957.<sup>5</sup> This alliance pursued a vigorous campaign of import substitution industrialisation (ISI) and the expansion of Malaysia's traditional primary resource industries. This developmental equation favoured foreign capital in the primary resource industries and domestic Chinese capital in primary and protected manufacturing sectors. The equation remained largely unchanged until the crisis of 1969. In response to Malay pressures for economic parity, the NEP was promulgated in 1970 on the back of an increasingly authoritarian state machinery (Crouch, 1996). Its ultimate aim was to achieve national unity through poverty eradication and inter-ethnic economic parity via a comprehensive economic restructuring within a largely 'laissez-faire' economic framework. While wealth restructuring was the main emphasis of the NEP, the government hoped to achieve the goal of a thirty-percent 'Bumiputera' (Malay) ownership of the corporate sector by 1990 (Gomez, 1994: 3; Jesudason, 1990; Jomo, 1995a ).

This approach generated new developmental paradoxes. Malay commercial advancement at the expense of Chinese capital could hurt the goals of the NEP. To overcome

this, the NEP

(also) involved an assault on the dominant position of foreign, particularly British, capital... The goal of raising Bumiputera ownership of the corporate sector to 30 percent would be achieved not by reducing the non-Malay share, but by restricting the foreign share (Crouch, 1996: 26).

Malaysia's spectacular economic growth in spite of such an impediment to foreign capital amplifies the powerful position of the state in directing the trajectories of capitalist growth. Socio-economic engineering ingrained in the NEP coincided with Malaysia's efforts to promote rapid industrialisation. Such goals depended upon the success of export orientated industrialisation (EOI). The contradictions that these brought to the fore underlines the analysis developed in this chapter.

Malaysia's transition from ISI to the EOI resulted in a complicated reorganisation of capitalist production. This reorganisation has been largely explained by references to the ascendance of a Malay elite committed to favouring Bumiputera. This elite sought to pursue policies that enhanced social stability. It accepted that import substitution industrialisation based on a relatively pluralist deal between main political and economic groupings had failed to promote social stability (Kuruvilla and Arudsothy, 1995; Jesudason, 1990; Crouch, 1996). Such accounts have largely ignored the role of non-political and global agencies during this transition.

The global environment during this period was characterised by full employment and the pre-eminence of Keynesian economic policy framework that favoured state intervention. But by the late 1960s welfare deals were under pressure and the role of the state came under scrutiny. Clearly, a paradigm shift in economic policy was under way by the mid-1960s. Moreover, economic pressures also meant that state interventions had to be constrained. By the late 1960s, Malaysia had evolved into a highly protected economy. This economy was thus exposed to a rapidly changing global economy as a consequence of the NEP. Changes in the global economic environment reflected changes in economic policy and also reflected underlying transformations in the position of labour. This external context had complex implications for the developmental strategies possible under the NEP.

The goals of the NEP such as reduction in the incidence of poverty, increasing the share of Malays and other 'indigenous' peoples' in the economy, fostering entrepreneurship



among Malays and other indigenous communities, and developing and expanding the social and physical infrastructure of the economy (Rudner, 1995:218) was affected by this changing global economic environment. The scope of economic restructuring implied in the NEP paralleled the attention to detail in the Japanese planning process, exemplifying their shared character as developmentalist states. In this respect, Rudner observes

Outside the communist sphere, Malaysia is one of the countries most attached to developmental planning. It is noteworthy that Malaysia's affinity for planning certainly did not stem from socialist convictions; nor from the zeal of economic nationalism or disappointment with the market economy. Quite the contrary, Malaysia's involvement with development planning occurred within the framework of a market -oriented and open, predominantly private enterprise economy governed by an innately conservative political elite... Malaysian planning has been significantly more interventionist than any mere dirigiste might imply (Rudner, 1995:228).

Obviously, the NEP approach challenged the conventional neo-classical accounts of Malaysia's rapid economic growth (World Bank, 1995a and 1996a). Restructuring in Malaysia was both state led and organised. Its privatisation programme started in 1985 proper also shows the contradictory nature of the Malaysian approach. While privatisation has commonly been associated with internationalisation of ownership, in Malaysia's case it has disproportionately advantaged an emergent Malay bourgeoisie - with the state providing the framework for selective market development and protection within the context of a rapidly internationalising economy (Jomo, 1990).

The developmental nature of the Malaysian state is exemplified variously in its current (the 7th) Development Plan (Hendersen and Appelbaum, 1992). This approach has also been referred to as 'state assisted capitalism' (Bello, 1996). But the notion of a developmental state is a misnomer. It reduces widely varying outcomes in the Asian region to a common set of assumptions about state strategies drawn from the experiences of Japan, South Korea and Taiwan, countries whose developmental strategies the Malaysian state has sought to emulate.<sup>6</sup> The 'late-developer thesis' more aptly captures the diversity of developmental approaches in this region.<sup>7</sup> All these approaches underrated the centrality of labour and state capacities in articulating and sustaining labour policies. This forms the starting point for the analysis developed in this chapter.

The high levels of state intervention inevitably flowed into the arena of labour

markets. This was underlined by the state's willingness to readily discipline labour. This approach also demonstrated that labour market deregulation was not simply a part of a broader neo-liberal restructuring package driven primarily by the exigencies of the global trading environment. Labour policies were derived from the NEP. This goal of redressing ethnic imbalances rested upon a restrictive labour policy. Thirdly, the highly interventionist approach also implied that labour could win narrow concessions through corporatist approaches.

These national developmental trajectories did not run in opposition to the broader global economic forces. For example, the transition from the ISI to the EOI clearly reflected shifts in the global political economy at the time. This paradigm and policy shift in Malaysia thus represented 'the political as a moment of global relation between capital and labour' (Holloway, 1994: 31). Because the 'political' occurred at the interface of the national and the global, it highlights the position of a dependent state during a phase of re-organisation of the global political economy. Thus domestic considerations that shaped state priorities during phases of re-organisation were also affected by, and open to factors located within the global system. The Malaysian state was:

able to ride the wave of global internationalisation while at the same time imposing a politically determined directional thrust on resource allocation within the national territory. (It) thereby integrated and transformed the production structure faster than would have occurred had the controllers of capital been allowed to operate within an unconstrained logic of global profit maximisation (Wade, 1992: 315).<sup>8</sup>

But Malaysian development was also influenced by a number of distinct historical factors. Sub-regional agencies such as the Asia Pacific Economic Community (APEC) and Asian Free Trade Area also affected the developmental strategies and approach to labour regulation. The commitment to a free trading APEC region by 2010 also had implications for the domestic economy, particularly in the low-wage labour intensive sectors. Increasingly, economic policies have been subordinated to the requirements of such regional and global agencies.

British colonialism also left a political system that was fragmented ethnically. The economy that it left behind was dominated at the time of independence by primary sectors (palm oil, rubber, tin). The specific contemporary political structures were a product of the

colonial mode of insertion of its primary sectors. A sustained effort to crush the communist challenge initiated by large general unions in the pre-war period, also led to the colonial state's sponsorship of the moderate strand of trade unionism and the introduction of harsh 'emergency laws' that were periodically used to discipline 'legitimate' trade unionism. The emergency laws used for the anticommunist military campaigns were incorporated into Malaysia's constitution in 1960s, long after the armed struggle had been effectively contained (Crouch, 1996: 13). Combined, these measures created opportunities as well as tensions for a state that has remained highly regulationist, even under a more liberal global environment. This has involved complicated social relationships including patronage in the functioning of state institutions and its approach to regulation. Working class and opposition challenges to the post-1969 political order have met the full force of such legislation, including the harsh Internal Security Act . A combination of social measures and authoritarian approaches were utilised to deal with interest group challenges. In these respects, the Malaysian approach to labour regulation is unique among the countries studied here.

In the post-colonial period, market-based economic relations were re-cast in terms of the political goals set under the NEP without overtly undermining the market forces.<sup>9</sup> Moreover, a politically organised market economy also led to a unique form of state-market relationship, exemplifying strongly the 'social embeddedness of exchange and markets' (Sayer, 1995: 89). In this respect, explanations of:

Malaysian political evolution must also take account of the communal factor. [This factor] ... cannot be dismissed as merely disguised expressions of class interest (Crouch, 1993: 136).

One ethno-political outcome was the unequal alliance between 'elites of the Malay and non-Malay' (mainly Chinese) communities (Crouch, 1993: 136). In the post-independence period, labour and trade unions came to be influenced by such alliances. Leadership selection within federations reflected the political and ideological orientation of ethno-political elites. Bowie suggests that:

changes in Malaysian economic development strategy can best be explained as products of the changing nature of the communal settlement ... As the terms of this communal settlement - which concerns the distribution of political and economic power between the major communities - have evolved over time, so has the extent

to which the state has been constrained in its ability independently to formulate and implement economic policy. The state in turn has responded by adopting different approaches to economic development ... to satisfy the twin policy objectives of boosting Malaysian economic growth and advancing, Malay communal interests (Bowie, 1991:9).

But this argument ignores the broader global context that affected Malaysian economic policies as well. This context included Malaysia's international and regional trade obligations under the WTO and the APEC. While the Malay orientation of the state was re-affirmed in successive elections after 1972, clearly, its economic policy choices have been shaped and constrained by both external exigencies and domestic considerations. Bowie's approach also ignores the role of labour in the process of economic change. Jomo and Todd (1994) also examine the impact of state policy upon trade unions and labour politics. Again, they do not adequately examine the influence of the broader context that shaped Malaysia's developmental options within which particular forms of unionism emerged in the first place.

It is therefore important to understand how regulation of markets was operationalised. To understand this, I show that states are the nodal points through which regional national, global and highly specific and particularistic interests interact. By focusing on this nodal point the relative causal weight of state institutions, social class, non-class interests groups and state policy can be studied. By factoring social relations that affect state policy, a purchase is also obtained on the contradictory impacts of the process of economic globalisation in Malaysia.

Much of globalisation literature (Ruigrok and Tulder, 1995) ignores the importance of the state as a site of contestation. These studies also take the state to be unchanging even during periods of rapid transition. This undervalues specific forms of social relations and the role of agencies in shaping state strategies. In Malaysia's case, this has not only included a recasting of the ethnic relations in a growing market economy, but a recomposition of the state itself. The ascendancy of finance and economic planning bureaucracies and their vertical integration with international policy making institutions are examples of this recomposition.<sup>10</sup> Through such institutional integration, the economic globalisation agenda could be shielded from domestic interest group pressures. A national policy elite guided the terms of its re-incorporation into a globalising international economy; suggesting that the modes of insertion were firmly embedded in a specific social and institutional framework.

Through such embeddedness, policy makers were able to pursue the goals of ethnic redistribution of wealth. By subjugating formal sector employees and their associations to the attainment of broad national goals, a restrictive regulatory framework nationally was taken out of the sphere of political contest. Moreover, because the state manages the political sphere so completely, it was able to define the contours of political discourse. These factors help show how and why labour has played such a central but yet politically marginal role in the spectacular capitalist growth in Malaysia over the past two decades.

### **6.3 Labour markets and economic development: 1970-1995**

A dramatic overhaul of Malaysia's labour markets underscored its pattern of incorporation into the global capitalist system, providing pointers for understanding the role of state institutions. Clearly, accelerated economic growth had significantly altered the sectoral employment composition and the size of the labour force within a space of two decades. For example, even between 1990 and 1995, agriculture's share of total employment declined from 28 percent to 19 percent of the labour force. During this period, the manufacturing sector's composition increased from 20 to 26 percent (Economic Planning Unit, 1995). Malaysia's post 1985-economic recession restructuring transformed the position of agriculture in the economy (World Bank, 1995a). This was a logical product of its industrial development policies adopted in the late 1960s. Overall, industrial development policies between 1970 and 1995 expanded the trend of export led growth and speeded Malaysia's integration into the world economy.<sup>11</sup> The restructuring of the state sector industries further complemented this process of integration. Both the sectoral restructuring and international orientation directly affected its labour markets (Rasiah, 1996; Lee and Sivananthiran, 1996).

On another front, restructuring of the public sector during this had a more modest effect on the overall levels of employment, exemplifying the ambivalent feature of Malaysian economic reforms. At the same time, restructuring sought to further Malaysia's integration into the global economic system, which required opening up the state sector to international capital. However, the Malaysian state has persistently depended upon the public sector to deliver its social goals laid out in the NEP.

Overall, a strong growth in employment by the early-1990s had produced problems

of acute labour shortages and increased labour mobility (World Bank, 1995a). In response, the Prime Minister called on 'firms to stop relying on cheap labour and shift to capital intensive industries' (The Economist, 21 September, 1996:92).<sup>12</sup> The economic crisis of 1997, however, demonstrates again how the international capital markets have been able to pressure changes in this increasingly rigid labour market, leading the large scale repatriation of expatriate labour (The Economist, 22 February, 1998). Given the high level of state regulation of the labour market, Malaysia clearly enjoys a far greater potential to absorb the fall-outs from further economic reforms. During the 1998 crisis, the state was able to readily pass the burden of adjustment onto imported and temporary labour recruited from the lower wage Asian states (Jomo, ed. 1999).

Overall, Malaysia amplifies the new paradox of economic globalisation; that is, accelerated economic growth has made national labour markets more porous. However, while traditional forms of state regulation of labour were restricted to national labour markets, economic globalisation makes it necessary for regulation to extend beyond national frontiers. In this respect, the fact the cross-broader supply and regulation of labour has become an important issue for bilateral agreements between labour importing and exporting states in the region exemplifies the expanding role of states in cross-national labour markets. Thus, the process of economic globalisation also internationalises the terrain over which contests between labour and capital occur.

This discussion draws out three critical issues for the economic globalisation and labour regulation debate. Firstly while labour markets have been deregulated as part of the restructuring process, they still remain subservient to the social policy goals of the NEP. Secondly, the state still retains control over the labour market by regulating the supply of labour through migration and skill formation, training and preferential labour policies. Between 1991 and 1995, for example, the Government approved the employment of 630,000 foreign workers, approximately 8 percent of total wage and salaried employment (The Economic Report, 1995:6).<sup>13</sup> Thirdly, the past two decades witnessed a modest expansion of individual rights, many of which had workplace implications. The privileging of individual rights over collective ones suggests another way in which the architecture of labour markets has been altered. This paradox exemplifies one way in which state/market relations have been recomposed. But state market relations have also been affected by the

powerful dynamics of ethnic group relations.

#### **6:4 Ethnic politics and economic development under the EOI**

Malaysia's ethnically fragmented political system, and a visible commitment by the dominant Malay elite to retain control of government, are also important in understanding how economic policy discourse was removed from the arena of political contestation. UMNO has generally dominated Malay politics since independence. In May 1996, it was reconciled with the breakaway party, the Spirit of 46 Group, which in turn helped re-assert its hegemony in the Malaysian political arena (*Financial Times*, 10/1996: 14). Such divisions cloud the slim differences that remain over economic policy orientation among top leaders in the party. Because of its dominance, divisions over economic policy within the party, rather than across parties are a better barometer of political contestation.<sup>14</sup>

Since independence economic policy debates have been gradually marginalised both within the party, as well as in intra-party competitive settings. However, the shift from the 'laissez faire' approach of the 1960s to the NEP agenda was presented as a failure of a conciliatory national leadership. Because Malay's had continued to lag in the formal market economy by the end of 1960s, the leadership of Prime Minister Tunku Rahman and the UMNO dominated Alliance Government that had been in power since independence was projected as having held back Malay progress. Thus the failing of the ISI mode of development to deliver visible economic gains to the Malay community was projected as a failure of conciliatory and pluralist politics. The ascendance of a more radical Malay political elite following the 1969 disturbances resulted in the pursuit of aggressive market-friendly economic policies (Jesudason, 1990).<sup>15</sup> Subsequently, this new cadre of UMNO leadership led the transition to a state-led industrialisation strategy.<sup>16</sup> In this ethnic quotas, money and regional alliances came to define the relationships between a new political elite, bureaucratic elites and multinational capital. A public service reflected these developments. Bowie (1991: 108) noted that

the bureaucratic structure inherited from the British, while suitable for administering a colony, was inadequate to tasks such as that of managing the vast investment stocks of holding compan(ies). The centralised and strictly hierarchical model on which the Malaysian public administration was built was poorly suited to operating business for profit. So new structures, represented by semi-autonomous agencies like PETRONAS, had to be

created to meet these new challenges.

The rise of new state institutions further endorsed the hegemony of the UMNO, as those loyal to the party were often rewarded with authoritative positions in them. During this period, the Economic Planning Unit in the Prime Minister's Department also assumed a pre-eminent role. Moreover the Foreign Investment Committee and the Capital Issues Committee, charged with furthering Malay corporate interests expanded their interventionist remit in the economy and the public service more specifically (Jesudason, 1990: 78-80).

Overall, the developmental strategies that underpinned the NEP had consolidated the position of UMNO and raised the profile of its political leaders and state institutions. Given that the UMNO has remained the dominant party of government since 1969, stability in the economic policy regimes has been a defining feature of Malaysian economic development. Moreover, challenges to the dominant economic policy regimes have been so thoroughly contained to the sphere of party politics and in the labour movement, that even slight policy differences come to be presented as major source of divisions.

Given the extent of UMNO hegemony, criticisms of Malaysia's economic policy framework has persistently attracted severe flak from government. In such an environment, union opposition to privatisation could be easily presented in anti-national terms (General Secretary, MTUC, interview). The finance minister, for example, referred to academics who opposed privatisation as an 'obstinate band of comics who persist in their misguided view that privatisation means mortgaging the interests of the 'rakyat' (people)' (quoted in Jomo, 1994). Such responses serve to even further dislodge criticisms from the mainstream policy discourses.

The communalisation of party politics in Malaysia has affected policy discourses. Because selection on largely ethnic tickets increases the chances for electoral victory for individual candidates, competition has been shifted from one focused between parties, to one within individual parties. This has exacerbated the trend of 'money-politics', which partly explains the banning of electioneering in the build-up to the 1996 elections by Prime Minister Mahathir (*Financial Times*, 20 September, 1996: 16). This tendency has merely expanded on a long tradition of close association between political parties and corporations.



The second associated tendency has been the emergence of a visible rent-seeking behaviour on part of the party in Government, which was applied as much to national enterprises as to Multinational Enterprises (MNE's). While statutes lay out state support for start-ups, the actual levels of support are determined through less formal means (Gomez, 1994; Gomez and Jomo, 1997). Also state institutions began to enjoy substantial leverages in interpreting, implementing and monitoring the implementation of NEP goals, enabling wider links between capital and state institutions. Such direct links between corporations, political parties and state institutions impacted upon labour policy and labour markets as well. Rentier behaviour on part of the state has meant that many enterprises have been able to retain support in the form of protection in spite of the broader objectives of trade liberalisation, often under the pretext of advancing Malay equity control. It also has implications for the privatisation process, as it becomes a more negotiated process. For capital, this type of access to policy makers has been a source of stability, even under the regime of trade liberalisation. Communalisation of politics generally, and the legitimisation of ethnic separateness across political society, have helped displace economic debates into policies about the promotion and protection of ethnic interests within both the civil and corporate arena. Such interests, depend of course on the market economy and policy choices made by the Malaysian state.

The World Bank and global policies of the Japanese state also influenced Malaysia's developmental trajectories. For example, the World Bank promoted tariff protection and import substitution industrialisation in the mid-1950s and neo-liberal policy programs in the 1980s. The fact that there was a congruent shift in policy orientation domestically with the policy framework promoted at different historical junctures globally suggests an interconnectedness between the two.

Like Japan, Malaysian industrial policies displayed a tendency to select 'winning industries' and 'winning enterprises', reinforcing the role of state institutions.<sup>17</sup> These industries and enterprises were targeted for long term support via an array of incentives. However, such selections were also influenced by the goal of increasing Malay equity ownership. Given a weak entrepreneurial base, state support for industries where the potential for Malay equity participation was clear was readily forthcoming (Jesudason, 1990). However, in the 1980s, this strategy went much further than indirect subsidisation.

It included the setting up of state owned enterprises, such as the Heavy Industries Corporation of Malaysia, banks and enterprises, such as the showcase Proton (the national car project), and focus public investment in industry, at a substantial budgetary cost (Bello, 1996).<sup>18</sup>

The Malay elite aggressively pursued FDI for its export processing zones because of impediments against Malaysian-Chinese penetration of the manufacturing. This elite also sought minimum equity stakes in manufacturing enterprises for an ascendant Malay entrepreneurial class in return for negotiated concessions. In turn, such negotiations broadened the role of state institutions. While the expansion of a Malay bourgeoisie in the industrial and finance sectors has recently slowed down, Malay and Chinese collaboration in the manufacturing and industrial sectors is still restrained by the overriding influence of ethnic politics (Jesudason, 1990). Ethnicity thus came to be further affirmed as a consequence of the chosen mode of economic internationalisation.

However, given the pace of economic globalisation and deepening economic crisis across the region, this feature is likely to be reversed as the costs of political interventions increase. Indeed following the downturn of 1996-97 and the slowing down of economic growth in Japan, the volume of FDI that Malaysia was able to attract has declined considerably. Moreover, with IMF's pressure for accelerated trade liberalisation within the region, Malaysian capital has become more inward looking (*The Guardian*, 21/1/98: 15). Accelerated trade liberalisation and a renegotiation of state-market relations subsequently affected labour markets in diverse ways, as indicated below.

#### **6:5 Accelerated internationalisation between 1986 and 1995 and labour regulation**

Economic internationalisation in Malaysia in the 1970s flowed from the NEP programme, which emphasised EOI strategies, state co-ordination of industrial development and active support for FDI. After the economic crisis of mid-1980s, this emphasis shifted to a more neo-liberal monetarist approach which stressed further trade liberalisation and reductions in the size of government through privatisation (Ministry of Finance, 1995, budget). Measures introduced under its tax regime through successive budgets further re-affirmed Malaysia's commitment to trade liberalisation as a member country of the WTO and the ASEAN Free Trade Area (AFTA).<sup>19</sup> But these changes did not come without

contest and reforms have not always been unilinear. The Malaysian state has often adopted policies aimed at advantaging specific domestic interests at the expense of its international and regional obligations. These contradictions affect its approach to the regulation of labour as well.

Overall, the policy shifts noted above deepened the integration of the Malaysian economy. The indicator exports plus imports as a ratio of the gross domestic product more than doubled over the period 1970-1985 and 1985 to 1995 (World Bank, 1995c). Of the case studies, by the end of 1995, the Malaysian economy was by far the most open (as measured by ratio of exports and imports to GDP), and yet with the likely exception of Japan, the most internally regulated. The challenge then is to explain this contradiction.

Malaysia's industrial relations featured heavily in explaining its mode of insertion during a phase of accelerated economic internationalisation. Because changes in industrial relations policies followed changes in developmental strategies, the industrial relations regime opens a window for understanding the political character of a reform oriented developmental state. The earlier discussions show the contradictions faced (and indeed generated) by the state in regulating labour in periods of exceptionally high growth in increasingly globalised settings. A key proposition that is advanced in this thesis is that industrial relation regimes and the policies of industrialisation adopted by states at specific periods historically reflect political choices made by states. In the hyper-global environment of the 1980s, such choices privilege multinational capital. In the case of Malaysia, this clearly required high levels of state regulation of labour within the context of deregulated labour markets. Given these contradictory tendencies, the association between industrial relations regimes and economic development policy becomes ambiguous. It does not, however, mean that causal relationships do not exist.

Frenkel and Harrod (eds. 1995) examined the association between industrial relations regimes and developmental patterns in different Asian settings. They suggested that the transition from ISI to EOI was associated with changes in labour relations regimes. But, such changes are driven by a variety of domestic and global factors and agencies (Wade, 1996). As a result, the choice of labour strategies needs to be understood by references to this multi-layered context. The relationship between industrial relations regime and economic development in the ASEAN region and in Malaysia more specifically has also been

examined by Kuruvilla and Arudsothy (1995) and Kuruvilla and Erickson, (1996). Kuruvilla and Arudsothy conclude with respect to Malaysia that:

it would appear that the ISI strategy was associated with an industrial relations policy that was, in some sense pluralistic. However, with the shift to EOI, government labour policy became more restrictive and focused on cost containment to facilitate the success of the competitive strategy of low-cost exports and the need to attract foreign investment. There is some evidence that foreign manufacturers did exert some pressure on the Malaysian government to contain costs. The mechanisms by which repressive state policies were enacted included various changes in industrial relations rules and increased government involvement in the industrial relations sphere (Kuruvilla and Arudsothy, 1995: 189).

Kochan (1996) concludes that the suppression of unions has not been the key factor in the success of the (Asian) economies, emphasising in turn the co-ordination of human resource development policies at the state and firm level. This is an argument also developed by the World Bank (1995b). With respect to the industrial relations framework, this World Bank study recommended limiting the coverage of collective bargaining in the non-wage component of the wage-packets, arguing the role of unions in negotiating bonuses and 'merit increments' needed to be examined. It further recommended that Malaysia needed to 'design and implement appropriate legislation and economic incentives to strengthen in-house worker unions' (World Bank, 1995b:v). The World Bank's emphasis on enterprise level bargaining was strongly resonated in Malaysia's Look East Policy (Jomo, 1995b). The studies noted above suggest strong links between a deregulated enterprise level industrial relations system and capitalist growth, particularly in the post-1986 economic environment. This reorientation of the industrial relations regime is thus intrinsically associated with the accelerated internationalisation that was experienced between 1986 and the end of 1995. Malaysia's policy response to its most recent crisis also appears to reaffirm this association (Jomo, eds, 1999).

The associations between the process of accelerated economic internationalisation experienced after 1986 reforms especially and state policy/strategies has been broadly established. They provide some pointers for understanding that ways in which Malaysian workers have been incorporated into the global economy. Smith (1994a) identifies four

relevant themes: the weakening of the trade union movement over the last two decades; the tendency of foreign investors to set up industries employing mainly women; the struggle during the last decade to organise electronics workers; and the ideologies for national economic development, especially exemplified by national appeals to Japanese and South Korean work ethics under the Look East Policy (Smith, 1994a: 159-60). Moreover, the privatisation process, a core element of the economic restructuring process, has illustrated how ethnicity can be manipulated by the state to win support, (or mollify opposition) for the restructuring project (Kuruvilla and Erickson, 1996).<sup>20</sup>

The shift away from industrial unionism is also a part of this transformation. This shift was premised on the crushing of radical unionism (organised as general unions) through a combination of coercive and legislative means. Moreover the ascendance of a more conservative trade union leadership nationally was an outcome of state support of a selected brand of trade unionism. The influence of international trade secretariats (ITS) and the International Confederation of Free Trade Unions (ICFTU) in this shift were also noteworthy (Gamba, 1962). In 1960, a 'leader of the MTUC assured the government that it would do its utmost to help maintain stable labour conditions so the government could attract industrial investment' (quoted in Jesudason, 1990: 75).<sup>21</sup>

Both CUEPACS and MTUC launched fairly large-scale economic ventures in the 1970s and 1980s and in so doing become more dependent upon the high growth economic cycle for the success of their ventures, although such ventures were failures by early 1990s.<sup>22</sup> Moreover, the MTUC's membership of the ICFTU helped further consolidate a neo-liberal outlook, even during the period of accelerated economic expansion between 1986 and the end of 1995.<sup>23</sup> At the Government level, a National Labour Policy recognises the importance of 'industrial peace as basis for continued development and tripartism' (ILO, 1996: 5). Given that national unions operate with a low membership base, weak organisational links internally and a narrow political base, tripartism can exacerbate labour's vulnerability. It also provides the basis for the labour ministry's intervention in labour market domestically while projecting an impression of a more conciliatory attitude towards organised labour. Such corporatist approaches have been persistently used to regulate and discipline labour over the past two decades.

Generally, two strands of argument appear to explain labour's responses to the

challenges created by economic globalisation. Caspersz (1996) and Wad (1996) provide some evidence of labour's challenges and resilience. Wad's ongoing research documents labour's successes in organising the export processing zones, arguing that enterprise unions modelled along Japanese enterprise lines offer cautious prospects for workplace autonomy (Wad, 1996, interview). Caspersz (1996: 73) uses structuration theory to unravel how other (besides class) social factors 'structure the agent, and how they can in turn be used by the agent to shape the structure'. She argues that labour's response was located within and defined by reference to the dominant ethnic/religious discourses. Jomo and Tabb (1994) and Rasiah (1996), on the other hand, emphasise state control and labour's internal fragmentation to explain labour's compliance to the state in a deregulated and open labour market. Rasiah (1995a:87), for example noted that

Malaysia's experience did not appear to offer much room for emergence of strong unions. Even a rapidly growing manufacturing sector and falling supplies of labour have not offered sufficient ammunition for the strengthening of unions. Given the nature of politics and government in the country, this trend is unlikely to change in the near future.

Elite factionalism has been a persistent characteristic of the organised labour movement headed by the MTUC both historically (Gamba, 1962) and in the current period (Jomo and Todd, 1994). Evidently, most of the emerging enterprise unions in export processing zones have remained outside the MTUC umbrella, largely for fear of derecognition (General Secretary, MTUC, 1995, interview). This has complemented state efforts to fragment organised labour, through its support of the breakaway federation, the Malaysian Labour Organisation (MLO) (Kuruville and Arudsothy, 1995:174).

The openness of the economy (ILO, 1996) had provided an otherwise weak national labour movement with opportunities for cross-national action, even though such actions as complaints to the ILO attracted severe criticism from the Government. Given that the MTUC leadership has been historically dominated by Malaysian Indians, such criticism has often taken the form of appeals to national loyalties. Even on a relatively minor issue of an MTUC response to a standard ILO questionnaire on multinational enterprises in 1996, the Minister for Human Resource, Datuk Lim Ah Lek called on 'workers and union members to review the performance of some irresponsible MTUC leaders for their actions which had tarnished the country's image when they should be loyal to the country' (New Strait Times, 2/9/96:6).

The MTUC, CUEPACS and individual unions have been largely engaged with short-term exigencies throughout the high growth decades. Because of their preoccupation with factional feuds and constant efforts to read and deflect likely government reactions, union leaders have been extremely cautious to avoid commenting on what are deemed to be political issues. An issue such as privatisation is presented as a political (and hence non-union) issue. Because it is a policy articulated by a largely Malay Government ostensibly committed to advancing Malay interests, an anti-privatisation stance on part of unions can be projected as an anti-Malay action (Das, 1995, personal discussions). The result has been the removal of economic policy discourse from the sphere of union contestation. This, in turn has enabled policy institutions including the finance ministry and MIDI to dominate the policy discourse.

As a further illustration, the MTUC had been so preoccupied with internal dissension and urgent day to day activities, that 'it failed to interpret the structural adjustment package introduced after the 1985-86 fiscal crisis. It was only when unionists began to attend international (ICFTU) and regional (ICFTU-APRO) union seminars abroad, that they began to understand that what Malaysian workers were being subject to was an integrated and largely anti-worker adjustment programme - by which time most pieces of the package were firmly in place' (Bruno, 1995, interview).

A low unionisation rate (averaging 10 percent between 1990 and 1995) has been a persistent feature of Malaysian trade unionism since independence. Until recently, employment laws had directly obstructed union expansion. Labour's organising struggles in the electronics sector are well-researched (Arrifin, 1996; Rasiah, 1996; Caspersz, 1996). Employment laws have been used to control unionisation of this sector. While existing labour laws have been used to halt the spread of industrial associations, they also provide the state with a number of indirect leverages to regulate unions at the enterprise level. These were utilised decisively during the high growth decade in Malaysia; emphasising the role of political agencies in the arena of labour regulation (Jomo and Todd, 1994).

To understand the politics of labour regulation, it is important to examine the broader developmental objectives to which labour has been historically subverted. Because developmental choices were articulated within a political context, they also entailed political choices about approaches to labour regulation. The choice of one model of trade unionism

ahead of another was perceived to have implications for economic development, as was clear from Mahathir's Look East Policy. Thus changes in labour law reflected the changing emphases of economic policy. Moreover, it is clear that since the reforms of 1986, this dual mode of labour regulation has also prevented the re-radicalisation of Malaysian labour. Moreover:

from its inception in 1946, labour laws were criticised by union leaders for their essentially undemocratic character, principally its enforcement of compulsory registration...But it soon became apparent that the colonial administration wanted to use the device of registration to supervise and control unions in the same manner as it had been used to controlling societies (Arudsothy, 1993:63).

Because the approach to political organisation remained similar in the post-colonial period, labour laws retained their restrictive provisions for registration of unions and industrial action. These have been used to control the expansion of unionism in the high growth and internationalised sectors.

Most of the specific labour laws were detailed in the Industrial Relations Act of 1967. The right to form and assist in the formation of unions, to join a union and participate in lawful activities of a trade union are subject to the restrictions under the Trade Unions Act of 1959. Katayanagi (1996: 58), observes that 'unions established after the enactment of the Trade Union Act are required to apply to the Director of Trade Unions for registration under the Act within one month of the date on which it was established'. If unions failed to comply with this or were refused registration, they 'shall be deemed to be an unlawful association, and shall cease to enjoy any of the rights, immunities, or privileges of a registered trade union. Moreover, because the qualification for registration largely depended upon the Director General of Trade Unions, he/she can refuse registration on the grounds that the union 'is likely' to be used as a platform for unlawful purposes, without having to provide any reason for the judgement. Moreover, the Trade Union Act defines trade unions in terms of association 'within a particular trade or occupation or industry, or within any similar trade or occupation or industries' (Katayanagi, 1996: 60-68). This provision had been used to prevent the Electrical Industry Workers Union to recruit members in the electronics industry and thereby deny the basis for effective unionism in that sector. The discretionary powers in the hands of the Minister for Labour and the Registrar of Trade Unions



(Arudsothy, 1993: 103-126) have been readily utilised over the past two decades. Moreover, because such powers are often discretionary, corporations and enterprises have been able to wield political influence upon the bureaucracy and the government to engage these wide powers to contain unions.

At the peak of the growth of the manufacturing sector, between 1981 and 1990, the Labour Minister readily used discretionary powers to reject union recognition claims. Some 65 percent of all applications for union recognition that were rejected were from unions organising in the manufacturing sectors (Ministry for Labour, 1986). Through a selective application of labour laws, the state was able to ensure that sectors/industries targeted for growth were given non-tariff protection in the form of a largely union free environment. At the same time, the state was able to withstand international scrutiny of its restrictive labour practices by maintaining that labour laws broadly complied with the ILO standards. Moreover, industries granted 'pioneer status' were given exemptions that categorically stated that collective agreements between unions and employers in such enterprises would not contain terms and conditions of employment more favourable than those provided under the Employment Act. Thus, the potential for unions to capitalise upon labour market factors, especially during a rapid growth context were effectively capped.

At another level, the high level of import of foreign labour (officially at 8 percent of total employment in 1995) required new forms of regulation, particularly during the full employment span that lasted until the end of 1997. One mechanism that was used was the increasing dependence upon 'contract labour' and state recognition of contractors, especially in the construction and plantation sectors (Lee and Sivananthiran, 1996). The 'contractors', rather than employers, are responsible for their employment, and workers enjoyed little effective protection under existing labour laws. By transferring responsibility for labour recruitment and regulation to contractors during the phase of high growth, state regulation has been selectively reduced without having to further tighten the anti-union emphasis of labour laws. Thus when Malaysia entered its most recent phase of contraction, the responsibility for the withdrawal of foreign 'contract labour' was transferred back to these contractors.

Economic internationalisation also has gendered outcomes in the labour markets. Low wage strategies have capitalised on the low participation rates of women in the formal

employment sector. The labour force participation rates (LFPR) for women increased only slightly from 46.6 percent in 1970 to 47.3 percent in 1990, though men's wages was still nearly twice as high as women's (World Bank, 1995a: 12). This is among the lowest female LFPR's among the high growth Asian economies, suggesting a large under-utilised pool of labour. With industrial deepening policies and better access to education, it is likely that labour policies will seek to mobilise this segment of the workforce. In the arena of labour laws, this is likely to mean that labour laws will dilute (rather than strengthen) the rights of women in the workforce; as implied in World Bank recommendations in 1995. Moreover, it is likely that women workers will bear the burden of adjustment as temporary foreign workers in the casual, flexible and low wage sectors are expelled, creating large gaps in formal sector labour markets. Overall, these tendencies reflect the ambiguous position of legislative labour regulation within the context of economic globalisation. These are reflected in a better way through Government's Look East Policy and its application in the high growth manufacturing sectors, the backbone of Malaysia's accelerated internationalisation.

#### **6:6 Look East Policy, global integration and the high growth sectors**

Mahathir's ascendance to Prime Ministership coincided with the adoption of a "Look East Policy". At its face value, it 'encouraged Malaysians to emulate and learn work ethics and attitudes ... inspiration, methods, and skills from Japan' (Shamsul and Smith, 1995: 1). Jomo and Todd (1994:171) further observe that 'Mahathir's Look East policy brought not only appeals to work harder and raise productivity, but also the threat of an end to supposedly British-style trade or industry unionism in favour of Japanese in-house unions'. Tied to this Japanese focus was also a concentration upon the labour relations model of South Korea. Moreover, the Look East Policy was part of an on-going process of greater regional integration led in the main by Japanese capital which saw decisive comparative and political advantages in relocating some of its industries in Malaysia. An important amendment to the Trade Union Act was made in 1989 to reflect this change. This amendment allowed for 'the formation of trade unions of workers within the enterprise, regardless of whether there were in existence registered and functioning unions that were able to cater for such workers' (Arudsothy, 1993: 91).

Viewed in this manner, the Look East Policy was an effort to re-discipline labour,

which was gradually becoming more assertive, after almost a decade of continuous high growth. At the same time, it was an effort to make clear the link between a disciplined labour force and economic growth on which so many other social goals of the developmentalist state rested. During this period, existing labour laws were also amended. These were a response to growing international pressures against Malaysia's labour policies and they prevented any move towards an industry-based organisation in the union free sectors. The consequences of this policy were especially severe in the electronics, garments and heavy industry sectors that expanded considerably following the economic reforms of the mid-1980's. Moreover, these sectors illustrate the importance of state co-ordination for their expansion, which were derived from political configurations that dominated the selection of developmental strategies. Labour policies came to form a core element of the chosen developmental strategy both after the reforms of the early 1970s and the crisis of the mid-1980s (Jomo, 1990; Jomo, 1995a).

It is too simplistic to treat all economic policies pursued by the Malaysian state since the mid-1980s as favouring the process of economic globalisation. Economic policies such as those associated with the export processing zones have come under criticism for their indirect subsidisation and are thus decidedly anti-global, a form of inverse protection. In the face of growing international opposition, the Malaysian state has remained committed to them. Such a policy has resulted in employment expansion as well as wage improvements. However, such symbiotic relations do not need to be anchored upon social partnerships or corporatism.

Export oriented production in these three sectors has been built through export processing zones, first set up in 1972. Some of the incentives for FDI were outlined in Investment Incentives Act (1968) and the Pioneer Industries Relief from Income Tax Ordinance (1958). Tax holidays, duty free export and import provisions, lower wage costs, under-utilised quotas under the Multi-Fibre Agreement and non-discriminatory policies in the allocation of quotas in early 1970s engendered the rapid expansion of the textile sector throughout the 1970s. However, the growth of the electronics sector was far more spectacular. Prior to 1971, there were only two companies in the electronics sector. By 1982 there were more than 100, making Malaysia the largest producer of semi-conductor devices in the world (Jesudason, 1990: 173-175). In 1970, the electric and electronic sector output

comprised 1.8 percent of the total manufacturing output. By 1991, this had grown to 28.1 percent. Its employment contribution to the total manufacturing sector employment had grown proportionately from 2.3 percent in 1970 to 26.8 percent in 1991. The result was a dramatic change in the structure of the overall workforce and the skill and gender composition more specifically (Rasiah, 1995b: 83).

Mahathir's rise to power also saw a shift in emphasis to heavy industry aimed at industrial deepening. Because the investment outlays in such projects were large and the gestation period long, the government established HICOM to implement projects, normally in joint venture with foreign corporations. Among the heavy industrial projects thus started were several cement plants, sponge-iron plants, a cold rolling mill, and a methanol plant (Crouch, 1996: 227). This included the showcase PROTON car manufacturing plant. However, the mid-1980s recession and fall in oil prices constrained further growth in this sector.

In each of these sectors, the state sought to consciously cultivate Malaysia's comparative advantages in the international environment. In targeting such sectors, state agencies also managed to pursue even more vigorously the social goals set by the government. The management of labour by state agencies and its regulation through law and non-institutional measures were central to the spectacular expansion in these three industrial sectors. Their comparative advantages rested on the assurances that the state would be able to maintain a disciplined workforce even in the emerging tight labour markets. By underwriting these new industries in this manner, the government was able to lever its political support behind the new industries, thus rallying labour to support the 'national interest'.

Labour relations in the electronics sectors illustrates the theme of control and regulation. The MTUC, for example, applied for the registration of National Union of Electronics Workers in 1974, but the government dithered on this application and rejected it eventually in 1989. Rasiah observed that

despite rapid expansion in employment, industrial relations in both industries have not developed much. Textile and garment workers have aggressive union representatives but their powers are seriously limited by government legislation. Electronics workers are still unclear about unionisation. Even official approval of in-house unions for the industry in 1988 failed to generate government enforcement, such that there were reportedly only eight in-house unions in 1993 (1996:43-44).

The fate of unions in the more traditional sectors was equally bleak during this period. The powerful National Union of Plantation Workers saw its membership reduced to 70,000 by 1990. The one modest success achieved by the union in the 1990s was the acceptance of 'the guaranteed monthly wages (equivalent to 14-working days of pay). However, it has not been able to improve the working conditions of its mainly Malaysian Indian members, much above the poverty level. Moreover, national independence and the Malaynisation of plantation capital failed to provide any significant changes to the lot of plantation workers (Menon and Leggertt, 1996; Ramachandaran, 1994).

Union struggles in these sectors demonstrate the dilemmas noted above. Firstly, because of the extent of MNE domination of these sectors, unions and the MTUC in particular had a fertile ground from which to launch international campaigns. In the early 1970s, the Government quietly entered into agreements with MNE's locating in Malaysia to ensure union-free environments. However, when Malaysia's preferential advantages under the Generalised System of Preferences (GSP) were threatened due to action taken by the AFL-CIO (US), the Malaysian Government reconsidered its position. The Minister For Labour, Lee Kim Sai, declared that the electronics industry 'was strong and stable enough to allow the formation of trade unions', though this applied to only in-house unions (Jomo and Todd, 1994: 151-153). This concession was clearly won as a result of the AFL-CIO's petition to the US Congress, which was arguably pursuing its own self-interest in protecting jobs within the US, rather than promoting international labour solidarity.<sup>24</sup> Paradoxically, this policy put the MTUC on a collision course with independent or employer assisted in-house unions even though only three in-house unions were formally recognised by 1995. Some of these unions (and emerging ones), according to Wad (1996) and Casperz (1996) were able to pursue progressive policies, but were denied MTUC support. As a result, they were also cut off from international solidarity. However, a few enterprise unions and activists in some Japanese-owned enterprises were able to engage the support of enterprise unions in Japan to win workplace concessions. Thus in spite of severe state regulations, the internationalised sectors have created both obstacles as well as possibilities for labour. On the side of possibilities, economic globalisation has enabled labour to bypass restrictive national regulatory frameworks. On the obstacles side, however, economic

internationalisation has opened a host of opportunities for capital and has strengthened the state's capacity to undermine organised labour. Given the 'race to the bottom' tendencies in some sectors, the volume of state support for FDI together with wage cost advantages are becoming more, rather than less important as primary determinants of comparative advantage. On both these accounts Malaysia's advantages are constantly being eroded by the lower wage Asian economies. These high economic growth sectors thus illuminate the ambivalent consequences of economic globalisation for labour and help explain the often-contradictory responses by labour.

#### **6:7 Accelerated economic growth and market-led labour regulation after 1986**

In the discussion above, I have emphasised the state's direct and indirect regulation of labour during the phase of economic restructuring after 1969 and during a period of accelerated economic internationalisation after 1986. But labour market factors affect labour regulation in other ways. This study demonstrates that during a period of sustained growth, state interventions sought to redress the 'distortions' created by wage increases and increased bargaining strength of several unions. They were necessary because the industrial relations instruments were unable to reverse the unfavourable consequences of a less flexible labour market.<sup>25</sup> This tendency was especially notable after the reforms following the 1986 crisis (Jomo, 1990). The World Bank similarly noted that

given the small population base, rapid GDP growth quickly translates into high labour costs. Rising wages when productivity is also rising, is a welcome reward to workers. However, if productivity lags behind wage increase, the economy's international competitiveness is lowered (World Bank, 1995: ii).

In spite of a deregulated labour market, the need for state regulation remained paramount during this period. This regulation underscored the state's role as the interface between the national and the global. Clearly, it is in the arena of labour policy that the Malaysian state enjoys a wide remit. This was clearly also the arena over which global factors had the least direct influence. The combination of the state's dependence upon monetary and other measures noted already is well-amplified in respect to the privatisation programmes.

Malaysia's economic recession of the late 1980s formed the backdrop to its privatisation programme. However, privatisation remained subservient to the goal of

increasing Malay participation in commerce and while retaining its goal of enhancing international competitiveness (Gomez and Jomo, 1997). This selective privatisation required foreign bidders to place a premium on their allotted shares and required them to take on board Malay nationals at all levels of employment (Financial Times, 7/11/89; Financial Times, 19/6/96:12). Significantly, more than M\$25 billion worth of public assets or equity in public enterprises has been transferred to the private sector between 1991 and 1995. This has involved the transfer to the private sector of over 90,000 employees (World Bank, 1995c), having in turn widespread implications for labour relations.

These developmentalist goals and economic liberalisation generated a series of new contradictions. If economic globalisation results from liberalisation, how can the contradictory goals of promoting state-determined social relations be attained? The privatisation of the Malaysian Airline System (MAS) illustrates these contradictions. It can be argued that the MAS at the time of its privatisation was considerably under-valued, making it a prime target for take-over by multinational enterprises. Through state support during the privatisation phase, including its overt effort to contain labours' opposition, the MAS ownership was retained in Malay hands. This was a product of active state interventions in both the capital and labour markets. Such interventions demonstrated the state's capacity to firstly, regulate labour through existing legislative devices (such as restrictions on strikes in essential services), but also through more indirect means. The ways in which labour has been regulated as a result of liberalisation in Malaysia cannot be thus explained by reference to labour market and economic policies alone.

For unions, privatisation presents new ambivalences. While, CUEPACS rightly fears that exposure to global competitiveness will erode workers interests, it is also aware that because restrictions on collective bargaining are removed in privatised enterprises, privatisation also presents opportunities for union reorganisation. Often branch officials in the target enterprises are those who stand to benefit from the restructuring by assuming leadership of newly registered in-house unions following privatisation (General Secretary, CUEPAS, 1995, personal discussions). This exemplifies the interconnectedness between the global (which determines the privatisation obligations), the national (which implements the framework for privatisation) and the local (ethnic interests, patronage).

Global capitalism, is not a competition between different national capitals. Rather

it is an organisation of distinct national (and within nations specific industries) markets via states internationally. States resolve conflicts between interests that seek to dominate specific sectors. This role is again illustrated by reference to the MAS during its restructuring. Partnerships between states, international capital and national capital are readily possible in the airline sector. Global giants may dominate sales, booking and technology while allowing national ownership of the airline hardware in a specific site. Such complex relations require extensive co-ordination internationally, but this can only be achieved through state agencies (in areas of landing rights or inter-airline transfers, safety provisions, and commercial law for example). These obviously cannot be regulated by capital and nor by international agencies on their own. This example amplifies the ways in which the Malaysian state is able to regulate markets, and manage the apparently contradictory demands that its 'national goals' exert in a liberalised economic environment.

Because the airline sector is among the most internationalised, it also offers more possibilities for union action. In practice, however, such possibilities are constrained. A strike by MAS employees in December 1978 illustrated this circumstance. Members of the Airline Employees Union (AEU) commenced a 'work to rule and ban on overtime' to press their claims for a new agreement which in turn was declared an illegal strike action. This resulted in pressure by the Labour Minister upon the AEU to deregister the 874 members who had participated in that industrial action. As the dispute escalated, the government (which owned the MAS) cancelled all MAS flights and called on the union to show cause as to why it should not be deregistered. The International Transport Workers' Federation escalated secondary industrial action internationally, with one MAS plane stranded in Sydney. Internally, the government detained 23 activists by engaging the harsh Internal Security Act, thus virtually crippling the union leadership. The MAS-AEU dispute had a lasting impact on the Malaysian trade union movement because it demonstrated the extent to which the government was prepared to exercise its powers against labour. The Internal Security Act was used to detain unionists participating in a trade dispute, serving as an ominous warning to all unionists. The enormous discretionary powers of the Registrar of Trade Unions were also highlighted by the deregistration of the AEU, and its deprivation of trade union membership, and restraining secondary actions by Port Klang unions to support the MAS workers (Jomo and Todd, 1994: 143). A weakened labour movement internally,



and poor corporate performance, made MAS an easy target for privatisation subsequent to the dispute. Through massive state subsidies, the corporation was transferred to Malay hands. Arguably, it was the Government's intention to retain majority Malay ownership of the MAS all along. A complex labour dispute demonstrated to foreign investors the level of dependence upon the state for labour regulation. While economic globalisation has broadened the scope for global strategies on part of labour (as was demonstrated by secondary action in Australia and the UK), reforms to labour laws in both these countries now make it next to impossible for unions to undertake cross-national secondary action. The MAS dispute therefore demonstrates the wide remit of the state in the area of labour regulation, and the limits of formal labour relations procedures. The example selected above exemplifies the importance that the state attached to the regulation of organised labour even in the high growth years between 1988 and mid 1990s.

#### **6:8 Labour standards and trade liberalisation**

The policy responses by the Malaysian state to the international pressures for trade liberalisation also exemplifies the tension between global and national strategies for labour regulation. Given its important role in APEC, it leads a strong campaign against international efforts to link labour standards with free trade provisions of the WTO. With trade union rights more firmly established than in its neighbours such as China, Indonesia and Thailand, Malaysia can be seen to be carrying the torch against what is viewed as 'labourist-protectionism'. Its International Trade and Industry Minister, Datuk Seri Aziz warned that

if the WTO work programme is distracted and disrupted by ... issues not linked to trade and the WTO, regionalism would be a favoured alternative as countries attempt to buffer themselves from the impact of multilateral action (New Strait Times, 18/8/96:26).

The Malaysian political elite is acutely aware of the potential of labour that is organised internationally and has been committed to weakening the links between trade unions in Malaysia and international organisations of labour. It has been able to pursue such policies by making appeals to 'national interest' and questioning trade unions 'loyalty' to the Malaysian state. Moreover, in an era where the state is presented as the basic unit of global competition, states are also able to rally support of interests groups in pursuance of what are presented as national goals. Thus many unionists interviewed similarly understood the

pressure for a social clause within the WTO framework as a pressure by Western governments to protect their established advantages via non-tariff measures. They thus privately supported the position of their government vis-à-vis the social clause, through publicly maintained a position congruent with that of the International Confederation of Free Trade Unions, a strong advocate of the social clause.<sup>26</sup> In private discussions, most unionists were opposed to the idea of linking labour standards to global trade. It is also likely, however, that such an ambivalent position on part of unions may be attributed to the overbearing influence of the government bureaucracy. For example, even a MTUC response to a ILO annual questionnaire in early 1996 resulted in a call by the Human Resource Minister to the MTUC's general secretary' to explain his response (New Strait Times, 2/9/96: 6). In a nation preoccupied with ethnicity, such a call by a Malay government can translate into a pressure upon Malay union members to rid the MTUC of non-Malay leaders. The Malaysian Indian leaders of the MTUC thus tread an extremely conciliatory line on such matters.

This paradox demonstrates a belief by national actors, including worker associations that the core unit of competition in the process of economic globalisation is the state. It is often the case that labour leaders are willing to accept economic and social policies that advantage the home state, although this may be at the cost of state control over them.<sup>27</sup> This has the effect of conflating industrial relations issue to discourses about the national interest. In accepting such a position, the subservience of organised labour is obtained, without having to resort to legislation or coercion. Such a position is premised on the evidence that national gains (investment, employment, technology, and markets) are best secured through carefully targeted national economic policies aimed at developing national comparative advantages. This reference to national comparative advantages, a core notion in the neo-liberal package, further exemplifies how neo-liberal economics is projected as unproblematic and selectively used to obtain the subservience of labour. As a result, the process of economic policy formation is further depoliticised.

Overall, the cases examined above show the premium that the Malaysian state places upon maintaining its influence in the sphere of labour regulation. Because labour policy has been shown to be so central to economic growth in an increasingly free global environment, the stakes for the so-called 'developmental states' are especially high. Viewed in this way,

the Malaysian state's opposition to global labour standards exemplifies how states fight back to retain their sphere of control from global regulation.

The key trends in labour policy, economic development strategies and their outcomes are summarised in the table below.

**Table 4:0 Economic restructuring and labour regulation in Malaysia: 1969-1995**

Key transformation and outcomes	1969-86	1986-1995
Impetus for change	<ul style="list-style-type: none"> <li>-Race riots in 1969 forces attention on the economic marginalisation of the dominant Malay community.</li> <li>-The ascendance to power of a more overtly Malay oriented government led by Mahathir.</li> <li>-Urban unemployment and rates of open poverty became serious.</li> </ul>	<ul style="list-style-type: none"> <li>-Banking sector crisis in 1986. Public funds to the equivalent of 6 percent of GDP needed to revive the financial sector</li> <li>Increased pressure from the IMF and Malaysia's trading partners for liberalisation.</li> <li>-Inclusion into Government of a Malay elite that favoured increased integration and openness.</li> <li>-Unemployment emerged as a serious problem after a decade of modest growth.</li> </ul>
Economic policy changes	<ul style="list-style-type: none"> <li>- Shift away from import substitution through support for pioneer industrial/manufacturing industries.</li> <li>- Vigorous promotion of Malay ownership of enterprises.</li> </ul>	<ul style="list-style-type: none"> <li>-Modest support for trade liberalisation</li> <li>-Rapid liberalisation of the financial sector between 1986 and 1992.</li> </ul>
Restructuring of state institutions	<ul style="list-style-type: none"> <li>-Increased Malay dominance of policy making institutions and political institutions</li> <li>-States institutions such as MID1, and Trade ministries given greater responsibility in co-ordinating the development of enterprise and industry.</li> <li>-A considerable increase in state involvement in enterprises and industry</li> </ul>	<ul style="list-style-type: none"> <li>-Ministries of International Trade and Finance emerge as the pre-eminent policy agency within Government.</li> <li>-Adoption of a sweeping programme of corporatisation and privatisation after 1986. Privatisation was also deliberately used to promote the commercial hold of Malays.</li> </ul>
Economic and labour market outcomes	<ol style="list-style-type: none"> <li>1. Exports of new manufactured products increase in real terms and in relation to the traditional export commodities.</li> <li>2. The state retains a strong presence in manufacturing.</li> <li>3. Gradual opening up of the economy.</li> <li>4. Harsh controls imposed upon trade unionists and the 'political' activities of trade unions.</li> <li>5. Labour markets are regulated closely through laws and other policies by the human resource and planning agencies.</li> <li>6. State bars union activity in the pioneer and new growth sectors.</li> <li>7. Efforts to control and restrict the power of large industrial unions in the public and private sectors. Bargaining coverage is reduced by a further 18 percent between 1973 and 1980.</li> <li>8. Gradual increase in foreign investment since 1973, leading to real decline in unemployment throughout the 1970s.</li> </ol>	<ol style="list-style-type: none"> <li>1. New export sectors such as electronics and electrical products dominate the manufactured exports.</li> <li>2. New sectors are dominated by MNE's (especially Japanese transplants). The role of the state declines correspondingly.</li> <li>3. Export and imports as a ratio of GDP increased by more than 30 percent suggesting a rapid opening up of the economy.</li> <li>4. Controls over unions become subtler rather than direct.</li> <li>5. progressive labour market deregulation between 1986 and 1992.</li> <li>6. State allows the formation of enterprise unions in the new export sectors.</li> <li>7. Enterprise unions emerge as the dominant form of trade unions. Modest recovery in union membership from a low of 7% in 1989 to approximately 11% by end of 1995.</li> <li>8. 350 percent increase in foreign investment and near full employment achieved by 1993.</li> </ol>
Social/ political outcomes	Proportion of Malay ownership in	Trade unions become torn by internal

	<p>'pioneer' strategic industries more than doubled. Malay corporate interests becomes more closely aligned to UMNO and the state. Ethnicity becomes an important factor in the regulation and control of organised labour.</p>	<p>strife and deep factionalism along ethnic lines. Migrant labour is progressively excluded from union coverage and support.</p>
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Generally, Table 4:0 above suggests that economic crisis helped open-up the possibility to re-orient economic and labour market policies after 1969 and 1986. In spite of the reorientation of policy, the state has retained close control over organised labour since 1969. After the economic crisis of the mid-1990s, it is not clear if the state can maintain this status quo, that is, of promoting liberalisation while continuing to regulate labour markets. Because of the serious contraction in employment, it is also unlikely that the burden of adjustment can be shifted onto 'migrant' labour, who have thus far remained outside the union umbrella. In these ways, it is likely that the terrain over which state and labour contests have occurred since 1969 are likely to be considerably re-shaped in the near future.

#### 6:9 Conclusion

The Malaysian study demonstrates the contradictory thrusts of processes associated with trade liberalisation and accelerated economic internationalisation. Both the rise of a largely Malay state that favoured social intervention and a global environment that favoured liberalisation amplified these contradictions. The Malaysian state reconciled this contradiction in a manner that expanded the scope of its social interventions while attempting to maximise opportunities created by the process of economic liberalisation. In these respects it has few parallels in the world.

A process of restructuring that began around 1970 saw high levels of state regulation, which emphasised both an institutional and a non-institutional approach to securing labour market conditions favourable to market-led growth. By making these a part of an overall policy of economic liberalisation, labour policies became interwoven into a unified developmental policy package. In Malaysia's case the package itself had very overt political goals domestically. The contours of restructuring were shaped by domestic economic and political exigencies and were underpinned by the developmental goals set by an elite political system. Efforts to open-up that package for debate and political competition were

stifled through an array of measures. Indeed, the Malaysian state acquired a near absolute hegemony over the economic policy discourse. This in turn fed the concentration of political power within a few institutions of the state. So long as that package held, the state could continue to manipulate an increasingly open economy to deliver national advantages without threatening foreign capital, thus maintaining the exceptionally high levels of economic growth. Through state mediated alliances with FDI and policy co-ordination that was supported by international and regional agencies, the Malaysian state was able to pursue interventionist and distortionary policies that could have win-win outcomes for a narrow segment of co-opted labour, national capital and FDI. Having supported the political package, organised labour was not left in a position to contest the restructuring agenda. Moreover, the engagement of ethnicity as an agency for regulation ensured that situations where a Malay trade union leadership came into direct conflict with the Malay-dominated state, reminding everyone of the potential for intra-ethnic class conflict were avoided. Neo-liberal restructuring in Malaysia represented fundamental political choices and the nearly complete displacement of politics from economic policy formulation process. Although neoliberalism characterised the economic policy environment in the 1980s, it failed to create a broad consensus even within the Malay political elite about a developmental vision for the future. The economic policy framework remains open to contestation, in spite of the substitution of political negotiation with neo-liberal imperatives. This contestation has helped open up new political spaces. How and whether Malaysian labour is able to assert its presence on this space will shape its prospects as Malaysia's integration into the global economic system is intensified following its most recent economic crisis. This crisis visibly dented some of the interventionist capacities that the Malay-state acquired during the high growth decade. It is indeed possible that the developmentalist goals and the goals of further liberalisation will collide in ways that could unravel the post-1986-deal, thus opening new possibilities for labour.

## Chapter Six: Endnotes

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1. The launching of the New Economic Policy (NEP) following the riots of the 1969 'coincided with the weakened position of the Malaysian Trade Union Congress (MTUC) in relation to government and capital, and the desire for moderate unionists to benefit from various opportunities created by the government's NEP'. (These) prompted the MTUC to campaign for active union involvement in economic ventures ... this campaign brought raised serious questions as regard the role and overall aspiration of the center (MTUC)" (Bahari, 1989: 204). The early 1970s can be regarded as a low point for both the MTUC and other unions individually. The NEP sought to even further dislodge their cross-ethnic class focussed appeals. Malaysia's economic restructuring proper thus began with a prior weakening of its union movement.
2. (Wade 1996: 318-19) provides an excellent critique of the neo-liberal approach. He argues that 'in the neo-liberal view, growth is a natural or inherent property of capitalist economies and that economic liberalization promotes the interests of rich and poor countries alike, and within these countries, of labour and capital, and further, that insofar as mutual interests are not being served, it is generally because the degree of liberalization is insufficient'.
3. This theme is conventionally applicable to the classic multi-ethnic formations. However, state interventions to redress disadvantages that specifically excluded groups faced in the labour market has become an important arena for state intervention and active employment policies in the UK and New Zealand over the past few decades as well. Equal opportunity initiatives also demonstrate such forms of interventions.
4. Malaya was widely regarded as 'one of the brightest jewels in the British crown', with export value per head of its population being higher than in all other colonies and dependencies, including New Zealand (see, Bowie, 1991: 42-65).
5. While Singapore had pressed for its own independence in federation with Malaysia, its fears of Malay domination of the federation led to its withdrawal and full independence in 1965 (Bowie, 1991).
6. Another popular formulation is that 'developmental state is one that in light of intense international competition and unequal distribution of wealth and knowledge between the developed and the developing nation, has as its central political objective the long term economic growth of society' (quoted in ILO, 1996: 5).
7. Excellent discussions of role of the state in promoting industrial development in the region, in contrast to mainstream neo-classical and neo-liberal accounts is presented in Frenkel and Harrod eds. (1995). See also Wade (1996) for a discussion

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of how the World Bank chose to underplay the importance of interventionist and distortionary economic policies in facilitating accelerated economic growth in parts of Asia.

8. While Malaysia's post-1969 social order is largely explained in terms of its ethnic settlement (Crouch, 1996), it is also a settlement that is firmly market based. Because the association between economic function and ethnicity has been managed by the state, Malaysia has also come to exemplify the notion of 'governed' state/market relations (Wade, 1992).

9. Had the NEP for example aimed to advance Bumiputera ownership through hostile takeovers of existing enterprises, even at market premiums or blocked the access of international capital to important economic sectors, the support of the World Bank and of international capital would have been much less enthusiastic

10. Technocrats have periodically over-ridden objectives established by the party political leaders in the governing party. Dass (1997:25) notes this tendency as early as 1977 when he observed that even the "Third Malaysian Plan was to some extent emaciated by over-zealous bureaucrats overriding the basic aims of political leaders who had much more equitable ambitions for the various races in the country".

11. Even in 1970, Malaysia was a relatively open economy as 'its exports as a percentage of GDP hovered just below 50 percent. This share had increased to 72 percent only 7 years later' (Mazumdar, 1994: 460). Both these were high by developing country and OECD standards.

12. Its Finance Minister similarly noted that because of the full employment situation and the high level of dependence upon foreign workers, Malaysia 'will no longer encourage investment in low technology and labour-intensive industries'. In this regard the 1995 and 1996 Government Budgets supported the shift to 'sophisticated capital-intensive technology, increase automation, and expedite the development of a progressive and forward looking labour force' (Minister For Finance, from the 1996 Budget Address).

13. World Bank (1996a:vii) notes, however, that 'estimates show that there are about 1.2 million immigrant workers in Malaysia, or almost 1 in 6 workers (in 1995). The largest concentration is in construction (70 percent of the total workforce), agriculture (30 percent) and non-government services (10 percent). These figures are twice as high as the documented rates'.

14. The opposition DAP, which has at times enjoyed moderate support among worker groups and has had a moderately left-wing policy orientation joined calls for even greater liberalisation during the last election campaign in 1995. This illustrates a broader political contest by political parties to dominate the center stage in politics rather than left or right policy-based fringes. For DAP's recent policies,



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see, DAP Malaysia, 1994, 'Declaration on Full Liberalization', party mimeo.

15. The current Prime Minister, Mahathir was among the radical "young turks" during this period - overtly committed to Malay commercial and political advancement. His severe criticisms of UMNO leadership during the emergency (see The Malay Dilemma) resulted in his expulsion from UMNO and he was not rehabilitated until 1973.

16. Malaysia was one of the few countries in Asia that succeeded in this strategy of state-led ISI with the support of the FDI. A new political elite offered lucrative incentives to FDI and negotiated minority equity interests for either individual Malays or Malay corporate holdings in the early 1970s in return. In this manner the post-1969 political elite sought to meet the twin objectives of the leadership change, i.e. firstly deepen Malay equity control in the corporate sector. Secondly, ensure that a high growth cycle would not aggravate the economic differences between Chinese and Malays.

17. In its practical application this means selecting individuals and targeting state support to their entrepreneurial initiatives. This is done quite openly through provisions of the Industrial Coordination Act (ICA), and institutions such as the Bank Bumiputera, Bank Pertanian (Agricultural Bank), PERNAS (a state investment holding charged with promoting Malay participation in businesses) and the State Economic Development Corporations (SEDCs) (Bowie, 1991: 94-104). Malaysian Premier, for example, commented in this respect that 'it is my duty to see that Malays who are given a chance (preferential state support) are Malays who can succeed' (Far Eastern Economic Review, 1996. 'Tough Talk: Premier Mahathir thrives on no-nonsense policies', October 24: 26). Neal (1994) critically examines the impact and success of two such institutions (MARA and MEDEC), arguing that "under the ideological banner which exhorts national unity through income redistribution for economic justice, the state elites successfully articulated the ideological and institutional rationale for promoting Bumiputera economic development through entrepreneurship".

18. State owned enterprises such as Petronas (petroleum) and Proton (automobiles) similarly signal state's determination to foster competitive advantages in selected sectors. According to Bello, the Proton project exemplifies all the sins of state intervention. 'Discriminatory treatment was one: the Saga car was exempt from various taxes while tariffs were hiked for other cars assembled in Malaysia... Another transgression was strategic industrial targeting ... so that the Saga would provide extensive forward and backward linkages to the rest of the national economy. A third offence was the compulsory local sourcing of components to encourage the growth of local supplier industries' (Bello, 1996: 169).

19. The 1996 Budget address by the Minister for Finance, for example, observed that 'competition must be encouraged among producers and sufficient supplies must be assured for the domestic market. After being given protection for such a

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long time, domestic industries ... are capable of competing with imported products ... Therefore, I propose to reduce the import duties on more than 710 items which have been protected for more than 10 years be reduced' (Ministry for Finance, 1996, Budget address, para. 48).

20. Kuppasamy (1994:9) also argues that government had 'acted to mollify the predominantly Malay employees on its payroll, thus minimising and pre-empting labor objections to privatisation policy'. Malay employee's compliance was particularly critical for a Government committed to promoting Malay interests. Policy makers have been especially careful that Malaysia's rapid economic growth did not lead to a radicalization of its Malay workforce.

21. This has remained persistent since. One very senior unionist interviewed by the researcher noted that unions 'generally felt more comfortable bargaining with MNE's than with Malaysian private sector or state enterprises' (Confidential Interview, April 1996, Kuala Lumpur). Moreover, Malaysian unions were also able to use at times the lever or support of unions in the home countries of the MNE's to pressure collective bargaining outcomes domestically. See Booth, H. 1995 'Labour Movement Responses to the Globalization of Production: The Case of Northern Telecom', Ph.D. thesis, Queens University Canada for a discussion on this theme.

22. CUEPCS was registered as a public sector trade union in 1957 and it represented public sector unions on the staff side of the Whitley Council set up in 1953. Narrow collective bargaining rights were restored for CUEPACS in 1984 when it was allowed to negotiate terms and conditions of service for government workers, but not salaries, allowances, and certain managerial prerogatives. It disaffiliated from the MTUC in 1981, although various threads of co-operation between the two had been re-established by mid-1995 (See Jomo and Todd, 1994).

23. ICFTU's financial and other support to the MTUC have been a 'source of fragmentation, rather than unity within union leadership ranks' (Interview, Dass - trade union activist - Kuala Lumpur, April 10, 1996).

24. This point is owed to Dr Dunston Ayadurai, seminar discussions, Japan Industrial Relations Association and Japan Institute for Labour Seminar (JIL), March 1996 - JIL, Tokyo.

25. The Finance Minister observed that 'the rate of inflation had declined to 3.4 percent in 1995 compared with 3.7 percent in (1994). This strengthens our belief that we can achieve zero inflation' (Ministry for Finance, 1996; Budget address-para.10).

26. This can also be partly explained by the overt dependence of the MTUC and many individual unions on the ICFTU and International Trade Secretariats for financial support.

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27. MTUC is a high profile member of the regional grouping of the ICFTU's regional grouping (Asia Pacific Regional Office - APRO). ICFTU-APRO officials questioned by the researcher also held a similar viewpoint on the link between labour standards and trade privately. This office does appear to adopt a confrontational attitude to European and Western trade unions on a range of other issues as well. Moreover, given that most of its core funding comes from the Japan Trade Union Congress (RENGO), the unions will do little to hurt the emerging comparative advantages of Asian states in the global trading environment.

## **Chapter Seven: States and economic internationalisation in comparative settings: writing in labour regulation**

### **7:0 Introduction**

This chapter considers the associations between economic internationalisation and labour market changes in the three studies. It assesses the roles played by states in their deployment of contrasting developmental strategies to achieve accelerated economic internationalisation and draws attention to the re-articulation of state and market relations through labour policy transformations. This re-articulation underlined two developments. Firstly, it emphasises the crucial place of the state regulation of labour in the reform process. Secondly, it illustrated the varying impacts upon organised labour of economic reforms. It is argued that a re-configuration of state/market relations involved an internal reorganisation of the state itself.

The comparative and historical examination has deepened our understandings of the politics of restructuring in the three case studies. These studies illustrate the distinct ways in which re-configuration was attained. Within this, labour market strategies appeared to be equally diverse; although achieving remarkably similar outcomes. This appears as a paradox. Having written labour into the analysis, I provide some pointers for understanding how such converging outcomes have been achieved. This approach throws open the substantive theoretical questions about how labour functions as a dynamic agency in the transformative processes that are studied in this thesis.

Such an approach emphasised the political nature of the process of economic internationalisation, rather than primarily an economic process. The political nature of the process of economic internationalisation rests upon complex inter-linkages between state strategies and labour market policies. Labour's responses to economic reforms confirmed the centrality of 'political agents' in the reformulation of state/market relations, throwing light on the political foundations of economic policy transformations. At the same time, the studies illustrated complicated variations in economic and labour market policies. However, in spite of such differentiation, labour was progressively excluded from the policy processes. To understand this puzzle, the study examined how national labour policy regimes were articulated during the restructuring phase and more fundamentally, how political factors affected policy shifts.

Labour is not a homogenous class, but is differentially organised and located. Segmented labour markets were observed in all the case studies. These generated and sustained

contradictory interest cleavages within labour. In the case of New Zealand, for example, the more marginal Maori and Pacific Islander labour pursued their interests separately from the main organisations of labour. In the case of Malaysia, the large immigrant labour market, and in Japan, the peripheral workforce characterised similarly distinct interest cleavages. The political associations of the different cleavages were similarly disaggregated. Evidently, economic globalisation has led to a widening of many of the existing inequities in national labour markets and a further disaggregation of labour-based interest cleavages. The ways in which labour market segmentations were affected by political agencies, especially premier policy making institutions throws open the need to critically examine the place of politics in the deregulated and liberalised labour markets that is one of the defining features of the process of economic globalisation.

This analysis is laid out in the following manner. The first section examines the reconfiguration of state and labour market relations highlighting the general shifts in state policies. It is followed by a discussion of trends that help explain the centrality of labour in these shifts and the consequences for a phase of accelerated economic internationalisation. Finally, the discussion assesses some of the wider implications and consequences of this reconfiguration of state/market relations. The chapter concludes by reviewing the factors that appear to be driving the contradictory changes that are observed, as well as examining the interconnectedness between them.

### **7:1 Reconfiguring states and labour markets**

By recasting state/market configuration by references to modes of labour regulation, this thesis reinterprets the state regulation of labour problematic.<sup>1</sup> Through this, the study concluded that even though economic globalisation appeared to be driven by capital markets, the process rested upon active state interventions in the labour markets. This conclusion substantiated Tilly's (1996) efforts to connect globalisation and labour rights by calling attention to the importance of segmented nature of labour markets, the social and power relations upon which such segmentation is grounded, and the interconnectedness between labour markets within national boundaries, regionally and globally. Labour rights in the most internationalised sectors did not necessarily deteriorate as a result of accelerated internationalisation. This theme was illustrated with respect to core labour in Japan's post-war industrial giants ('keiretsus'), for example (Ruigrok and Tulder, 1995: 166). By driving economic policy shifts aimed at harmonising the conditions for accumulation, it was commonly argued that nation states had become less

important agents for economic regulation (Lee, 1996; Clark and Williams, 1995). By positioning labour at the centerstage of this analysis, the thesis demonstrated how labour market policies featured in this harmonisation process, in so doing it underlined the central role of the state and hence of politics.

One of the impacts of the rapid internationalisation of economies exemplified by these studies has been on the re-organisation of labour markets. Microeconomic policy instruments were deployed to 'free markets', thereby promote growth and employment (Landsberg and Burkett, 1997; Jesudason, 1990; Kelsey, 1993). However, these shifts also entailed pressures that have eroded hard-won labour rights. This highlighted the tensions between policies based on market intervention or liberalisation as the dominant approach to labour regulation.

Governments in each of the three cases broadly recognised that the financially driven wave of globalisation had transformed the state-bounded accumulation process. These governments committed themselves to the view that 'markets needed the steadying hand of governments' given the destabilising impacts of trade liberalisation (Boyer and Drache eds., 1996: 54-9). As a result economic restructuring came to be associated with policies of market disintervention and de-regulation, generating periodic, and at times, severe contestation between and within the state institutions and labour organisations. However, the complicated nature of contestation often camouflaged the political goals of economic restructuring, a discussion I return to in Chapter Eight.

The state in each case promoted specific policies aimed at defining labour markets in particular ways. With the growing internationalisation of the three economies, such policies were critical in providing the basis for neo-liberalism, which was underpinned by the de-regulation of labour markets. These approaches are illustrated with reference to the segmentation of labour markets, the gendered reconfiguration of labour markets, decentralised bargaining and other labour market policies, including policies relating to immigrant labour.

In all the three economies, immigrant labour, for example, was increasingly concentrated in the low echelons of the labour market, often deprived of union representation and denied legislative protection. Economic internationalisation also increased the demand for migrant labour. In each instance, the importance of immigrant labour was in terms of its workplace flexibility and to the weakening of the control of collective labour institutions. The growing importance of such labour for workplace flexibility made it easier for co-ordinating agencies to implement labour market reforms in the more internationalised sectors. In the case of Japan,

however, the overall level of migrant labour remained small, although expanding. Nevertheless, Japanese enterprises that had relocated to the more traditional labour exporting countries in Asia and to low wage regions within Japan, showed similar patterns to New Zealand and Malaysia.<sup>2</sup>

A gendered reconfiguration within these national labour markets was also evident. The low participation rates of women in the labour force ensured that a pool of flexible labour was readily available for deployment as these economies internationalised. Women workers were concentrated in the low wage and low skill sectors. As a result, the differential incorporation of women workers into the labour market was associated with increased workplace vulnerabilities. The female labour force participation rate was 25.3 percent in 1980 in Malaysia, 38.5 percent in 1984 in Japan, and 46 percent in New Zealand in the same year. The proportion of women in the wage and salaried workforce has been increasing over the past two decades (ILO, 1995a and 1995b). At the same time, the flexible workforce that is increasingly dominated by women has been the source of flexibility for businesses during the recent economic downturns in Malaysia and Japan especially. Thus the internationalising strategies of governments depended upon mobilising women as a key domestic source of new labour during periods of accelerated growth.

Moreover, the ratio of mean wages for women as a percent of wages for men was 46 percent in 1977 in Japan. This declined to 42.5 percent in 1986. In New Zealand, this was 73.3 percent in 1977, and it again declined to 71.8 percent in 1986 (ILO, 1995a: 103-4). Comparable data for Malaysia was not available, although it is anticipated that this tendency would also apply. These tendencies are significant given that all the governments also made important strides in improving the position of women in the labour markets and improving their conditions of employment during the period under examination.

This observation illustrates the key thesis that internationalisation of national economies induced and depended upon very specific patterns of labour market segmentation within national economies as well as between economies (Grace, 1990; Shin Yamada, interview, 1996). Additionally, professional and technical segments of national labour markets also expanded disproportionately, even in the tight and regulated markets in Malaysia and Japan. Accelerated internationalisation over the past two decades widened existing income disparities in each national labour market. During this period, these economies also experienced a decline in the influence of trade unions and accelerated economic internationalisation over a broadly similar time frame. However, it was also true that some segments of labour were able to secure considerable gains without the support of collective labour institutions and had benefited from

increased cross-national mobility. Overall, economic internationalisation was associated with increasingly permeable national labour markets and the fragmentation of labour markets internally. It was also associated with the emergence of differentiated labour policy regimes in the three economies. Such transitions were consequences of reorientation of policy within selected state institutions. These new forms of segmentation problematised the conceptual and explanatory approaches of labour economics that have shaped the neo-classical developmental discourses. New forms of segmentation that evidently aggravated distinctions not only in relation to women, but minorities, younger and older workers and peripheral workers highlighted how segmentation in the labour markets served the broader aims of labour market flexibility upon which the neo-classical policy framework rested. The segmented outcomes in labour markets also demonstrated the inability of neo-classical labour economics to explain the wide variations in labour market outcomes that were associated with the process of economic globalisation. This problematic deserves closer scrutiny if the economic globalisation and state relationships are to be better understood.

The variables discussed above exemplify the high priority given to regulation and co-ordination of labour markets by the three states. However, their co-ordinating functions appeared to contradict the deregulatory tendencies associated with neoliberal reforms in other sectors. While the reconfiguration of labour markets appeared as a part of a generally deregulatory thrust of economic policy, the deregulated market itself provided new means for labour regulation (Boyer and Drache, eds. 1996). However, labour market deregulation based on the three case studies was associated with a fundamental recomposition of labour politics.

These labour market outcomes and strategies were essentially political in nature. They involved, and resulted from political negotiation and contestation between labour and the state in the political arena. The studies demonstrated the continuing relevance of the 'political' to understanding the 'economic', validating the observation that:

politics is not ... to be read off from economics. Rather, the political and the economic are both to be seen as forms of social relations, whose differentiation enables the everyday conduct of government and yet whose contradictory unity circumscribes the volition of states. Government thereby responds to the power of labour at home and is forced to deal with the consequences of labour-capital struggles on a global scale.... Whilst the national state cannot ultimately resolve these contradictions, ... it may be able to mobilise resources and refashion international political and economic relations, to gain a more favourable temporary position in the interstate system characterised by uneven development (Burnham, 1995: 104).

Through examining state/market relations situationally, this study has reaffirmed the



importance of a range of 'political agencies' in negotiating and sustaining labour policy transitions, thus helping avoid economic reductionism. Moreover, the examination of the reconfiguration of state/market revealed state and markets as interconnected rather than distinct spheres. The realms of state, market, political and economic systems' were 'densely and inextricably intertwined'. Logically, therefore, state and market relations come to be shaped by politics. These relations thus need to be viewed alternatively as 'internal and necessary, rather than external and contingent' (Burnham, 1996). These relationships are illustrated through the variety of ways in which state/market relations were reconfigured in the three countries.

### **7:2 Economic internationalisation and the role of state agencies**

To understand the process of internationalisation of national economies, it is necessary to develop a set of criteria to examine the 'political' agencies and mechanisms through which these policies are operationalised. The particularity of context is important since states facing similar sets of exigencies developed distinct approaches.<sup>3</sup> As part of this process, states provided the conditions for internationalised economic activity through restructuring so as to ensure the patterns of change observed in each country. They also provide the means through which these conditions can be shielded from a variety of interest group and social pressures. To be able to provide and shield these conditions conjunctly, state institutions themselves had to undergo a metamorphosis.

A key feature in the state restructuring process was a re-organisation and re-positioning of state institutions. Changes in the remits of agencies, such as the Treasury departments, planning and co-ordinating agencies, were particularly noteworthy. Their re-organisation aided the centralisation of economic policy formulation, which led to a hollowing out of national corporatist frameworks and of collective responsibility (Williamson, ed. 1994). Conventional labour market institutions including tripartite agencies were pushed aside through a complicated process of reform driven by these re-organised economic policy institutions. New forms of contestations involving the conflicting policy orientations of the different agencies emerged.

Through complementary institutional reform, political parties in government refocused their traditional approaches and policies. Within the parties in Government, new axes of contestation developed around the premier finance and planning agencies, promoting elite group decision making. Where governments were comprised of complex coalitions, as in Malaysia and Japan, this conflict went into the very heart of the decision making process. In both these

countries, interest representation through traditional forms of political lobbying, became more opaque and complex. The result was that these transformations dislodged the traditional alliances between party political institutions and labour-based interest groups. Paradoxically, such dislocations also helped shield economic reforms from opposing political and interest group pressures. In this manner, economic globalisation not only had implications for traditional industrial relations processes but for the democratic process more generally (Offe, 1996).

Nowhere was the globalising thrust of economic restructuring seen more clearly than in the state sectors of the economy. In all the state formations studied, state sector restructuring aided economic internationalisation by exposure to international competition. State sector restructuring took two main forms. The first was privatisation, largely inspired by the goals of efficiency and deficit reduction. However, this process was qualified in Malaysia and Japan by sentiments associated with economic nationalism. In New Zealand such a sentiment was restricted largely to the domain of electoral politics rather than actual policy. Second, state sector reforms were directed at reshaping the role of state bodies in co-ordinating market relations.

Politics played an important part in the scope and scale of privatisation particularly in Malaysia and Japan. On the one hand, privatisation was part of a broader trade liberalisation agenda driven by international agencies, such as the World Trade Organisation. On the other, the three governments embarked upon privatisation to deal with economic exigencies. Moreover, privatisation in the case of Malaysia advanced the political goals of the Malay state. It provided an opportunity to advance the state sponsorship of a Malay national bourgeoisie as a counterweight to Malaysian-Chinese capital. However, privatisation in itself did not explain the Malay advantage because throughout the 1970s, the Malaysian state had pursued a policy of expansion of the state-owned sector to promote Malay participation in the commercial sector. More importantly, this transition demonstrated the state's capacity to subvert economic policies for the attainment of political goals. Japan presented more diffused outcomes, in spite of the gradual privatisation of the JR, political goals continued to define economic priorities and goals, even in the privatised sectors. JR's privatisation contrasts with that of Nippon Telephone and Telegraph (NTT) which faced substantial domestic opposition to its possible take-over by global giants. Thus in the case of the developmental and the post-developmental states of Malaysia and Japan, neo-liberal types of reforms in the public sector reinforced the importance of state politics. In both cases, policy selections and strategies were politicised. Some on these political

factors, such as a popular hostility to foreign take-overs, provided useful levers of influence to trade unions as well.

A politicised environment also created opportunities for labour, mitigating against the decentralising impacts of labour market deregulation. Clearly, the process of privatisation substantially weakened unions. Nonetheless, unions in Malaysia and Japan were able to consolidate themselves in the privatised corporations. In cases where privatised enterprises remained subject to political interventions, labour managed to retain the leverage open to them and fared better than their private sector counterparts. In Malaysia and Japan, labour was also able to rebuild some of its previous influence as a result of its ability to retain an advantaged position in key privatised sectors.

In all the case studies, state sector restructuring was preceded by economic crisis marked by increasing national debt, widening budgetary deficits and declining levels of investment, clearly evident by the early 1980s in New Zealand and Malaysia (OECD, 1992 and 1993). At the same time, the ascendance of the neoliberal orthodoxy within national policy making agencies helped dilute the enthusiasm for high levels of state intervention. The subsequent restructuring was propelled by a combination of unfavourable external exigencies, domestic economic crisis and supportive policy agencies that resulted from the public sector restructuring in each of the case studies, all were factors that amplified the crisis of Keynesian interventionism (Held and McGrew, 1994; Clarke, 1988). It is relevant to compare how the agencies responsible for formulation and implementation of economic policies have evolved in the three cases therefore.

Generally, highly specialised and centralised agencies emerged within the state bureaucracies. These premier agencies were also vertically integrated into international institutions of decision making, such as the World Bank, the International Monetary Fund and the Asian Development Bank (Tanzer, 1995). In the case of New Zealand and Japan, their membership of the OECD and the flow of their nationals between OECD offices and relevant policy institutions domestically were equally significant. The vertical integration of policy institutions globally and regionally provided the necessary interface between policy institutions in diverse settings. The flow of people between relevant international agencies and national policy institutions further aided the transmission of a global reform agenda even when the national political institutions were not favourably disposed to that agenda, as was the case with Japan (Wade, 1996).

Major realignments in the responsibility and function of state institutions responsible for economic policy formulation resulted from these reform agendas. However, in the case of Japan, MITI and the Economic Development Committee were exceptions to this trend. These agencies had emerged in the early post-war period, explained in terms of the exceptional post-war circumstances of Japan and the concentrated economic restructuring programmes that Japan had been subject to as a result of US occupation. Such centralised agencies evolved much later in Malaysia and New Zealand and their emergence were more closely associated with the ascendance of reform orientated governments in the 1980s. Some of the key transformations that occurred in the case studies are summarised in the table below.

**Table 5:0 Changes in the economic and labour policy environment (early 1970s and mid 1990s)**

Country	1970s	1990s
New Zealand	<ul style="list-style-type: none"> <li>- Collective-cabinet responsibility over policy formulation is strongly emphasised.</li> <li>- Strong single party conservative governments.</li> </ul>	<ul style="list-style-type: none"> <li>- The role of the Treasury, Finance ministry, State Services Commission and Reserve Bank in policy formation is enhanced.</li> <li>- Nationals (conservatives) replace a short lived labour government in 1988. The influence of both labour and nationals reduced through electoral reforms.</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>- Core Cabinet and Finance Ministry mainly responsible for economic policy formation.</li> <li>- Conservative UMNO hold on government strengthened after 1973.</li> </ul>	<ul style="list-style-type: none"> <li>- The role of MIDI, Ministry of Finance and Prime Minister's office enhanced after the crisis of 1986</li> <li>- Further concentration of responsibility for economic policy during the present crisis.</li> <li>- The dominance of UMNO comes under growing challenge</li> </ul>
Japan	<ul style="list-style-type: none"> <li>- MITI, Finance Ministry, Cabinet have strong influence over design of economic policy.</li> <li>- The conservative LDP Government dominated government throughout the decade.</li> </ul>	<ul style="list-style-type: none"> <li>- The role of MITI, Finance Ministry, EPA, Economic Development Committee, and increasingly Bank of Japan in economic policy is generally enhanced.</li> <li>- Further concentration of responsibility for policy during the present crisis.</li> <li>- The dominance of the LDP declines. Electoral reforms lead to coalition governments.</li> </ul>

There was a general shift away from the collective decision making at cabinet (or its equivalent) level towards a smaller fraction within cabinet and a small number of core policy departments. This core was increasingly dominated by heads of economic planning agencies, treasuries and finance ministries. They were also more open to influence by international policy

agencies such as the IMF. There was also an observable reduction in the degree to which Cabinets had collective control over economic policy (Jomo, eds, 1999; Grant, 1996; Kelsey, 1995). By the mid-1990s, in both Malaysia and Japan, co-ordination and regulation functions had become much more centralised, aiding the developmental nature of these 'competition states'. By competition states, I refer to a general orientation to the pursuit of 'international competitiveness of industry in these countries. As a result, it became possible to influence labour policy through planning agencies, ministries of trade and economic affairs in ways that were not possible in the 1970s. The key impact of the transitions noted above was that they reinforced the 'technocrats' influence over the policy process. In the 1990s, the larger political parties (UMNO, Labour and National in New Zealand, LDP) in all the three countries became more dependent upon the policy institutions of the state for framing their policy outlook. This enabled policy institutions to limit the influence of organised labour over the political decision making process. In this manner, the analysis presented above provides an interesting standpoint from which to assess some of the underlying generative mechanisms of large scale changes in the area of labour regulation in the present period. The centralisation of control over the policy process and a general weakening of the hold of single political parties over the government machinery occurred over a period in which these economies experienced increased economic openness. Combined, these factors aided the internationalisation of the three economies.

These transitions also enabled economic policy agencies to transform the narrow corporatist devices to support the broader developmental objectives (Scholte, 1997). By situating national developmental goals in relation to labour during periods of structural transformation, the underlying rationale and ideologies that drove state agencies in one or another direction is better understood. National developmental visions such as Japan's income doubling goal of the 1960s or Malaysia's 2020 vision presented favourable glosses over systematic programmes of labour market deregulation. The 'growth discourse' in New Zealand served a similar purpose.

Without understanding the dynamic and contested nature of changes, it would be difficult to understand the particular ways in which they affected labour regulation. For example, arguments about state sector inefficiencies during periods of economic crisis were skilfully deployed to achieve state sector reforms. These arguments helped mollify powerful public sector unions. They often had little to do with efficiency gains. Moreover, state sector reforms generally were presented in a manner that disconnected them from the wider economic restructuring programmes. Different sets of reforms presented themselves as separate, disconnected and

autonomous processes. This served to similarly fragment public debates and opposition about the reforms.

The three states found different levers within the neoliberal reform agenda through which to placate public groups. While the Fourth Labour Government in New Zealand presented itself as a radical reformer addressing state sector inefficiencies, the new Japanese Government assumed the mantle of an anti-corruption reformer. The Malaysian state, on the other hand, used state sector reforms to promote ethnic equity. In each case such posturing served to cloud the public debate about the broader economic restructuring agenda. Trade union respondents displayed a serious lack of understanding of the interconnectedness between populist state sector reforms and broader labour market reforms. Trade union literature did not make the crucial connections between the emerging trend of centralised economic policy formulation process, anti-trade union labour market reforms and financial sector liberalisation. And yet, they were interconnected parts of an ideologically based and politically-led transformation agenda pursued by developmental and rampant neoliberal states alike.

One crucial thrust of economic policy shift during this period was the attempt to provide greater stability in market relations. A consistent policy framework helped reduce fluctuations derived from economic policy oscillation. The stabilisation of interest rates, inflation, and exchange rates depended to a large extent upon the reduction of the rentier type influences of organised labour. This was part of the approach by the post-1985 Malaysian, post-1984 New Zealand and post-1990s Japanese states. Drache (1996) observed

that the new role for the state is to maintain a trade friendly environment and accept its obligations to open national markets regardless of the adjustment costs. This is the underlying essence of free trade ... It is a covenant between governments and markets that the logic of efficiency has to determine the allocation of activity among all trading nations (quoted in Boyer and Drache eds., 1996:49).

Such a covenant implied transformations in state institutions to compensate for the absence of transnational political structures to secure inter-state economic regulation. By themselves multilateral institutions could not enforce compliance within national economies; nor could they regulate and discipline labour or guarantee property rights and relations. The centralisation of influence over economic policy at the national level redressed this partly. This was characterised by the expanded policy formulation roles of the finance and treasury agencies in Malaysia, New Zealand and Japan as well as expanded roles for specialised agencies such as MITI in Japan and the State Services Commission in New Zealand. Williamson (1994: 189) and Schor and You eds.

(1995) stressed the need to understand the varied ways in which economic and political actors have combined to collectively shape economic outcomes. Nonetheless, such convergence of practice did not erase the domestic room for manoeuvre. It helped to sustain a separation of the field of economics from politics within the public sphere, however.

A separation of the economic and the political spheres helped legitimate arguments about a narrowed room for manoeuvre on the part of political policy makers across the studies. The argument was that the state was unable to intervene to reconstruct corporatist practices, since the momentum for reform was outside state control. The outcome of this was the denial of political influence to labour. The separation was also legitimated by references to scientific calculations that highlighted the 'distortionary' impact of unions upon industry and international competitiveness.

The process of economic liberalisation is affected by domestic political considerations. In the case of Japan, for example, there were persistent efforts to limit the dislocating impacts of economic liberalisation in strategic sectors and in industries with strong political lobbies. Similarly, the dislocational impacts of economic reforms in terms of ethnic balances triggered state interventions and regulation in Malaysia. These seemingly contradictory tendencies illustrate the limits to the globalisation thesis and present its contradictory nature (Lee, 1996). Overall, the case studies do not provide compelling evidence in support of the thesis that economic globalisation had unilinear liberalising impacts upon national markets. Neither do they provide evidence that neo-liberal reforms are placed beyond political contest or are irreversible. This was sharply demonstrated in the case of New Zealand. Following the 1996 elections under the new proportional representation system, the junior coalition partner in the National-led government, New Zealand First Party secured a significant concession to enhance the flexibility of New Zealand's Reserve Bank by increasing the upper inflation level limit from 2 to 3 percent. It also proposed a compulsory pensions scheme, reintroducing a nationally legislated business cost that the post-1988 reforms had ended (*The Economist*, 14/12/96: 78). These propositions re-opened the technical arguments that underpinned its economic reform in the 1980s to political scrutiny.

There was limited opposition to the reform agenda. In both Malaysia and Japan, characterised by their dominant single party governments, debate was restrained because of a lack of consensus within trade unions and interest groups allied with labour. It was clear that unions in these states lacked a coherent view of the overall reform agenda, particularly as

reforms were introduced in a piece-meal fashion and often lacked coherence. But the reconfiguration of state/market relations did not follow a unilinear path. A general shift from import substitution (ISI) to export orientation for example was gradual. These shifts in economic orientation and the corresponding state strategies are summarised below.

**Table 6:0 Re-configuring state/market relations in the 1960s and 1990s**

Country	1960s	1990s
New Zealand	Centralised import-substitution industrialisation, high degree of intervention in primary export sectors	Liberalised market, rejection of ISI, minimal state regulation and intervention, minimal political regulation
Malaysia	A general ISI orientation, central planning, high degree of intervention and regulation in primary export sectors, politicised tariff and quota protections	EOI, centralised planning retained, reduced levels of state intervention and selective deregulation in export and finance sectors
Japan	A strong mix of ISI and EOI, high degree of regulation and co-ordination, moderate intervention	Reduced level of regulation and co-ordination, reduced intervention, strategic liberalisation.

It was evident that the transitions in state/market relations on labour regulation were also associated with contrasting sets of policy challenges. However, the approaches and the specific ways in which such contradictory outcomes have been attained were dramatically different.

At a general level, New Zealand provided one extreme case of radical restructuring, Japan was an example of a modest and strategically selective restructuring programme, while Malaysia occupied the middle position; although this was likely to change given the scale of its present economic crisis. Both the pace and direction of restructuring were driven by different sets of national and international factors.<sup>4</sup> Overall, the case studies exemplify three modalities of economic internationalisation, illuminating the complicated relationships between modes of labour regulation, economic policies and patterns of internationalisation. At the same time, this discussion of the general tendencies support the argument that 'considerations of international competitiveness have influenced the formulation of national employment and labour policies' (Lee, 1996:495) in a manner that favoured international capital. However, this does not make international capital the only, or even the main lever for domestic policy change (Holloway, 1994 and 1995). While the pace of liberalisation has differed, in all these countries there has been a general reduction in the scope of state interventions in the economy.

The country studies noted a clear, but gradual displacement of the influence of collective labour market institutions in the economic policy management frameworks. This displacement was both an outcome and a source of liberalisation, one of the key elements of the



reconfiguration of state/market relations. The labour market outcomes of liberalisation are detailed in the section that follows.

### **7:3 Labour market consequences of accelerated internationalisation**

The country studies present economic internationalisation during the 1980s as a process marked by increased economic openness, financial sector liberalisation, constrained state intervention and labour market deregulation. Accelerated economic internationalisation has been associated with policies aimed at trade liberalisation and labour market deregulation (see Tables 2, 3 and 4). The evidence presented raises questions about the Hirst and Thomson's (1996a and b) thesis as well as showing the faulty foundations of the position advanced by Ruigrok and Tulder (1995). MNE's presence in national economies were boosted as a result of increasing openness of all economies, the unwinding of protective barriers, liberalisation of capital and labour markets, and the pursuance of market friendly developmental strategies more generally. All the cases provided compelling evidence of these trends, although these trends were most marked in the case of New Zealand.

While the extent of economic internationalisation differed across the studies, an overall orientation towards economic openness was persistent, signalling a favourable policy orientation towards both national and multinational capital. However, there were important differences in the outcomes in each country. These differentiations occurred along regional, industrial, sectoral and other lines; although they were less important in the finance sectors in comparison with the manufacturing sectors. These outcomes were most significantly expressed through the labour markets. A key feature of economic openness was its non-discriminatory emphasis. As a result, the distinction between national and state embedded capital and private international capital became less relevant as the policy environment changed. Subsequently, multinational take-overs through privatisations became widespread. However, in spite of the non-discriminatory policy reforms, the extent of such take-overs were varied. For example, in the developmental states of Japan and Malaysia, there were state directed transfers of state sector enterprises. In Malaysia, such interventions went one step further. The Malaysian state consciously embarked upon a policy of supporting the expansion of a Malay bourgeoisie through the privatisation process. In contrast, the New Zealand state left the deregulated markets much more independent, although a very tight control on inflation was retained via an autonomous Reserve Bank. The result was that MNE take-overs were more frequent in New Zealand, than the overtly 'politically'

controlled economies of Malaysia and Japan.

Clearly, not all interventions affected labour regulation. Indeed, economic restructuring did not always correlate with immediate labour market reforms. This is best illustrated in the case of New Zealand where the Fourth Labour Government embarked upon sweeping liberalisation of the financial sector during its first term in office. Labour market reforms aimed at decollectivising organised labour were only attempted by the subsequent National government. This contrasts with the experiences of Japan and Malaysia where developmental states invested heavily in the political regulation of labour, and shaping a policy of self-discipline on the part of labour that aided the national goals promoted by the developmental states and derived corporatist rewards in return (Johnson, 1995: 72-93).

There was unevenness in the impact of accelerated economic internationalisation upon labour regulation. Economic internationalisation brought into sharp relief the differences along spatial, sectoral as well as regional lines. Sharp differences in labour regulation between enterprises were a noteworthy feature in all the case studies, though most clearly illustrated in the case of Japan (Shirai, eds, 1983). This can be explained by reference to size of the larger enterprises in Japan, with their complex networks of inter-firm linkages and the regulation of such networks by the state (Kuwahara, 1989; Chalmers, 1989). The association between intra-firm labour market segmentation, labour regulation and economic internationalisation was less clear. Notable differentiations also existed between formal and informal labour markets. While the distinction between state regulated and non-regulated sectors in the studies became less relevant over the past two decades, differentiations along the above lines became more marked. Economic internationalisation presented itself in the form of homogenising influences in other sectors, most clearly in the form of financial sector deregulation. However, it was only in 1997, that Japan initiated financial sector reforms on the scale reaching that of New Zealand in the 1980s. This resulted from a combination of domestic pressures against the rentier operations of financial conglomerates within Japan and pressures by global (mainly US) capital markets. Overall, economic internationalisation had the effect of widening differentials between different segments of labour markets.

The importance of the financial sectors in this process has two dimensions to it. Firstly, it raises issues about states' roles in economic policy management (Wade, 1996). Moreover, the financial sector is also a growing employment sector in all the three economies (World Bank, 1995b: 72-81). Thus changes in wages, working conditions and the position of unions within this

strategically important sector appears to have wide reverberations. In Japan, for example, only a few months after the announcement of the 'big bang' package of financial sectors reforms, wage differentials between the finance sector and other sectors had begun to widen. This has pressured changes in the annual 'shunto' format through which wage improvements are secured (*Financial Times*, 1/4/97:6). Given that co-ordinated wage bargaining by numerous enterprise-based unions had the effect of mitigating the weakness associated with size, any reform of the 'shunto' system will almost certainly further weaken the wage bargaining position of individual unions and widen the disparities between different economic sectors. These tendencies were also apparent in Malaysia where the banking sector union secured gains over wage and conditions of employment, in excess of national averages (Bruno, 1997, interview). In both these cases, the liberalisation of this vital sector appeared to trigger and indeed depend upon significant changes in labour relations.

Two broad approaches to bringing about economic internationalisation in national settings are observed from this study. First is the hyper-liberal approach to deregulation evident in New Zealand, which permeated all factor markets. Because restructuring affected industrial development across all sectors, efficiency, competitiveness and similar criteria induced significant adjustments in wages and employment. Restructuring emerged within the deregulated framework characterised by increased autonomy of the reserve bank, and the transfer of anti-inflationary responsibilities to 'non-political' policy institutions. This restructuring had variable impacts upon different segments of the labour markets in each of the countries.

New Zealand's hyper-liberal approach contrasted with relatively high levels of state co-ordination that were still prevalent at the end of 1996 in the other two economies. The Malaysian state achieved a relatively high degree of autonomy over the economic policy regime while retaining relatively high levels of intervention (Cho, 1990). Moreover, Japan maintained a more co-ordinated economic and industrial development framework while gradually reducing the scale of direct political interventions (Tabb, 1995). This suggests a more managed approach to economic internationalisation. In these two cases, however, this more gradual approach had reached a crossroad by mid-1996 when the 'Big Bang' package was announced by the new government in Japan at the end of 1996 (*Financial Times*, 1/4/97:6). Thus, in the approach to restructuring a substantial variation in the degree and level of state co-ordination and intervention was evident in these three studies.

Some of the key labour market transitions associated with economic internationalisation are summarised below.

**Table 7:0 Key outcomes of economic internationalisation in labour markets**

Country	1960s	1990s
New Zealand	<ul style="list-style-type: none"> <li>Key industrial sectors are state controlled and regulated.</li> <li>Corporatist labour relations were well entrenched.</li> <li>Political institutions committed to corporatist arrangements.</li> <li>Full employment and a 'model' welfare state serve to preserve corporatist arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>Near complete trade liberalisation.</li> <li>Corporatist approach replaced by market based regulation</li> <li>Deregulation leads to collapse of union coverage, expansion in 'flexible' and other forms of vulnerable labour practices.</li> <li>Unions overwhelmed by the pace and scope of restructuring</li> <li>On the economic front, restructuring leads to higher levels of economic growth, decrease in open unemployment and improved public finances.</li> <li>Labour markets become more segmented and labour organisations become more fragmented.</li> <li>Organised labour's influence over policy diminished.</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>Key economic sectors are state controlled and regulated.</li> <li>A pluralist labour regulation framework is kept in place until 1973. Trade unions generally organise themselves along industrial lines. The general unions had been broken up by the early 1960s.</li> <li>Increasing open poverty and economic marginalisation of rural and non-formal economic sector population emerges as a social and political issue.</li> </ul>	<ul style="list-style-type: none"> <li>Targeted FDI in export sectors, pace of deregulation increases</li> <li>High level of economic growth between 1987 and 1993, near full employment and acute labour shortages develop as well. A new cycle of crisis emerges towards the end of 1995.</li> <li>Labour market segmentation worsens (migrant and non-core workers comprise majority of new employees). Migrant and non-core employees bear the brunt of the economic downturn of the mid 1990s.</li> <li>Trade unions become extremely fragmented internally and isolated from the policy process.</li> <li>The decline of 'state as a model employer'.</li> </ul>
Japan	<ul style="list-style-type: none"> <li>State co-ordinates selective internationalisation of industry until early 1970s, otherwise key sectors are highly regulated.</li> <li>The dissolution of general and large industry unions was generally successful. Enterprise unionism became the dominant mode of labour organisation.</li> <li>Full employment and developmental goals used effectively to reduce the influence of radical fragments of organised labour.</li> </ul>	<ul style="list-style-type: none"> <li>State selection of strategic industries continued, pace of liberalisation increased after the 1990 slowdown.</li> <li>State sector employment slows down. Major privatisations used to weaken remaining industrial unions.</li> <li>Increased flow of SME's abroad.</li> <li>Enterprise-based unions well established and they develop new political alliances.</li> <li>Segmentation in labour markets worsens. The peripheral sectors bear brunt of adjustment. Costs of adjustment are passed down the supplier networks.</li> <li>Economy becomes more open, but open and hidden unemployment increases as well.</li> </ul>

Overall, a shift towards full liberalisation was initiated in each country in the 1980s, although the pace of transformations differed sharply. Ostensibly, a shift in economic policy regimes was triggered in each case by a perception of economic crisis. Thus economic restructuring aimed to restore conditions favourable to growth. In either case, these policies aimed to create employment reduce deficits, control inflation and boost domestic and foreign investment. These factors, in each of the case studies were legitimated as enhancing international competitiveness.<sup>5</sup> This discussion has shown that these macroeconomic goals had important implications for labour regulation. It was also clear that the present economic crisis in both Japan and Malaysia had provided a further impetus to economic internationalisation.

There was some evidence that internationalisation of trade was associated with an increase in the vulnerability of organised labour. A key goal of restructuring in the case studies was to enhance the export orientation of the overall economy. However, it should be noted that historically, the primary sectors in Malaysia and New Zealand had been export oriented, although both had depended upon preferential international markets. While an export orientation implied deeper integration into the global economy, this integration was not necessarily associated with a free trading structure. Protected trade in the traditional export sectors had implications for costs of production, affecting labour policies. A transition to a freer trading environment in these traditional export sectors affected the price of labour, reflecting lower prices for primary commodities in the 'free' global markets. This downward adjustment depended upon a prior decollectivisation of labour organisations and a rupturing of the corporatist alliances in these sectors. The demise of the large agricultural union in Malaysia and the farming sector interest group lobbies in New Zealand (Kelsey, 1995: 95-97) were associated with this globally induced transition.

In Japan, export orientation was based on strong supplier networks, protection in domestic markets and access to subsidised capital. It was capital, rather than labour, that were most directly affected by the realignment of the Japanese economy. Capital was thus able to influence the pace of internationalisation. A strong network of capital ensured that agricultural, finance and industrial sectors were realigned in a comprehensive manner. Subsequently, a calculated strategy of internationalisation ensured that labour's alliances with capital were reconstituted on a regional scale.

A snapshot of the overall trend in export orientation is presented in the table below.

**Table 8:0 Export Orientation**

Country	Exports/GDP (1975) (%)	Exports/GDP (1995) (%)
New Zealand	19.80	24.20
Malaysia	43.75	75.80
Japan	12.20	22.82 (1992)

(Source: New Zealand, Key Statistics, 1997, World Bank, 1996a.)

Exports expressed as a proportion of Gross Domestic Product (GDP) demonstrate the level of dependence upon international markets. Because the proportions have increased in each case, they support that thesis that economic restructuring has facilitated, rather than retarded the internationalisation of these economies. It is therefore instructive to examine the situation of labour in the export sectors where the yardsticks of international competitiveness apply more closely. By focussing on labour regulation, it became clear that export competitiveness was derived not solely from traditional neo-classical indices of labour, that is, wage and labour productivity. Competitiveness relied upon an armoury of state support for export sectors. It is thus within the framework of state support that labour policies specific to internationalising industries were articulated. The most visible tendency observed from the study is that policies that supported competitiveness, or at least were presented as doing so, also exposed labour costs to international yardsticks of competitiveness. Thus corporatist practices, collective wage determination, minimum wage protection and other social protections could be presented not only as anti-competitive, but also as harming national interests. The pursuit of 'competitiveness' assisted in securing labour's discipline and subservience.

It was also significant that in both hyper-liberal New Zealand and moderate Japan that internationalisation did not wipe out the relative importance of the national market. In both countries the internationalisation ratio has remained below 30 percent. Thus the argument that 'the growing internationalisation of the economy is eroding one of the basic foundations of the nation-state, i.e. the national market' (quoted in Boyer and Drache eds. 1996:67) is shown to be problematic.

Economic policies aimed at promoting competitiveness of industry impacted upon wages, labour productivity and labour organisations in variable ways. In Malaysia, tax breaks and related measures for pioneer export industries went hand in hand with protection of these industries in the form of anti-union measures. In Japan, besides extensive capital subsidies, the protection in domestic markets for the export industries remained strong. A hierarchy of supplier networks where trade union encroachment was limited enabled the sustenance of a relatively high wage and permanent employment structure in the internationally trading sectors. This gave Japanese corporations a unique comparative advantage; they did not have to rely on the direct control and subversion of organised labour.

The New Zealand's case was even more dramatic. Because of the historical embeddedness of social corporatism, internationalisation strategies associated with economic restructuring relied very heavily upon labour market reforms. As indicated earlier, economic globalisation not only had serious implications for organised labour, but also for the New Zealand's democratic political framework. Clearly, the association between democratic political processes, economic restructuring and changes in the regulatory environment for labour is a central to explaining the process of change.

State interventions aimed at boosting competitiveness invariably had implications for labour. However, the relationships between labour and export-led growth were uneven across the case studies. This reflected the wide variations in these relationships that existed within the Asia/Pacific region. This variance is exemplified by New Zealand's post-1984 internationalisation, which proceeded within a framework of declining social protectionism, displacement of corporatism and breathtaking market-friendly legislative reforms. In Japan, the core of organised labour in the internationalised sectors enhanced their position, even during the recent recession. In Malaysia export-orientated industrialisation proceeded from a base of prior exclusion of collective labour associations. The implication is that labour policy and state regulation of labour should be viewed in conjunction with the overall economic policy framework of each country, and not assessed separately.

Moreover, differentiation in the pace of internationalisation was also associated with changes in the approaches to labour regulation and varying role of change agencies. Variable domestic power configurations affected the leverage of labour over economic policy. Overall, however, reconfiguration of state/market relations is associated with a decline in the political significance of labour associations. Any assessment of the shifts and re-orientation in the

dominant economic policy approaches needs to factor in the changing circumstances of labour. To explain the variable outcomes in these states, it is thus important to look at how political agencies negotiated the selection of reform strategies. Across the case studies, it was clear that the ability for labour to preserve advantages that had evolved during an era of protection had waned, the corporatist relations of the past were transformed and as market considerations increasingly shaped labour market outcomes. This change was also associated with the growing assertiveness of interest groups, such as the Business Roundtable in the case of New Zealand, and employer associations in both Malaysia and Japan. So while the policy influence of organised labour declined, business agencies prospered. Economic globalisation clearly had far reaching and mainly negative consequences for organised labour. However, globalisation was not premised on a prior weakening of labour generally as the New Zealand case illustrated. This is a puzzle. Arguably, therefore, these declining fortunes of organised labour, on the one hand, and the sustained currency of policies engendering economic internationalisation, on the other, appears as a problem from these case studies.

#### **7:4 Drawing out the implications of economic internationalisation**

Overall, the case studies have shown that external trade re-orientation and reform favoured export sectors at the expense of the domestic orientated sectors. This transition was not merely an economic policy one. They were underwritten by a number of changes in the area of labour regulatory framework. There was an ambivalence and ad hoc aspect to these policies, which made it very difficult for labour to respond in a strategic way. At one level, there had been extensive debate about these policy directions, particularly in international agencies. At another level, policy-makers were much less clear about their initiatives. Indeed, New Zealand's radical reformer, the Labour finance Minister, Roger Douglas, commented that his government neither had a full idea of the restructuring programme, nor any firm idea about its sequencing. Many of the policy reforms were chanced upon. In such circumstances, it was thus clearly difficult for labour to respond to a nebulous reform agenda, as was the case with the 1984 to 1988 New Zealand government reforms. Often also unions were locked into quite specific and discrete struggles with the state, such as opposition to privatisation and thus failed to see the wider reform context. This was evident with both RENGO and the MTUC in the 1980s. These national union centres had wasted a lot of political capital in such specific disputes, affecting their ability to secure broader support and alliances in opposition to the larger reform agenda. Moreover, the



reforms themselves often triggered harsh local and internal disputes within the union movement.

Thus, labour's responses to national economic restructuring, were diverse and uneven. These responses took particular national forms, such as the impacts of contingent bureaucratic conservatism on part of union officials in New Zealand (Roper, 1996), state repression in Malaysia (Dass, 1991) or labour's subservience to state institutions in Japan (Price, 1997). Sectoral, enterprise and even regional demarcations became important in explaining labours reactions (or lack of it) to the broad economic changes noted above. Rapid restructuring accelerated these tendencies and often forced labour on to a defensive terrain. Some of these responses were also direct outcomes of the institutional reforms in the industrial relations environment.

The analysis of economic reform and accelerated economic internationalisation highlighted the increased importance of industrial relations regimes in the economic policy discourse. Labour market strategies were presented as a central pillar of the reform agendas (Lee, 1996; World Bank, 1996b). A deregulated industrial relations framework that emphasised individual and enterprise-based settlement came to be associated with post-1988 New Zealand and with Japan in the post-1973 period. Such policies were presented as central to economic growth, reflecting a broader trend across the Asia-Pacific region (World Bank, 1996a and 1996c). The link between labour market processes within the institutional remit of industrial relations and economic growth was an uneasy one. The World Bank's attempt to locate the reasons for economic growth disregarded the political contexts in which industrial relations policy choices were articulated. Instead, the evidence of the study underlines the importance of examining these processes within a political framework centred on the central dynamic of labour-management relations. These factors were important to explaining the success of neoliberal reforms by reference to its industrial relations framework.

It is equally important to disaggregate the varied patterns evident in the labour relations regimes in each country. In the case of Japan and Malaysia, sectoral and regional differentiation continued to be significant. For example, a slow improvement in wages and working conditions in the garments sector in Malaysia can be attributed to competition rather than collective bargaining (Rasiah, 1995a: 27-9). Chalmers (1989) observed how power relations were central to the relatively stable employment in Japan's core employment sectors. These differentiations help contextualise industrial relations processes in relation to the whole economy. Such differentiation demystifies a neo-liberal view that national policy transformations can have

homogenous impacts across economic sectors. Moreover, in both Japan and Malaysia, the dominant industrial relations systems and practices rested upon formal and informal agreements between employers, unions and state agencies that had evolved over a long historical time frame. Such agreements defined the parameters for collective and individual action resulting in routinised organisation. Partly, as a result, both Japan and Malaysia were able to avoid sharp ruptures in the industrial relations regime during periods of radical economic restructuring. However, this was not the case in New Zealand, where party political differentiation influenced debate and policy. The political competition between the National Party and the Labour Party had resulted in changes to the labour relations regimes. While a fragment from the Fourth Labour Government articulated a radical liberalisation agenda, it was far more restrained in the area of labour market deregulation. By the time the National Party promoted a radical liberalisation agenda, labour organisation and indeed the electorate had tacitly accepted anti-labour reforms as a consequence of a regime change.

Significantly, while the overall variances in the legislative environment of labour regulation were marked, a number of continuities were notable.<sup>6</sup> What is common to these legislative programmes, however, is the persistent move towards greater labour market deregulation. Ostensibly, labour market reforms sought to reduce the interventionist power of organised labour. Additionally, governments sought to realign wage fixation to enterprise performance, thus ensuring that enterprises could readily respond to international exigencies. In the past, a continued heavy presence of the state in direct economic production had retarded this potential and distorted wage outcomes given strong union organisation in the public sectors. Moreover, preferential trade, domestic support and subsidisation also created mismatches between wage and competitiveness and broadened the scope for political regulation. Labour market reforms, both of a legislative variety as experienced in New Zealand, or the more tacit and subtler forms, that occurred in Malaysia and Japan, sought to minimise the scope for political regulation. Clearly, this reduction in the scope for political regulation rested upon self-restrictions imposed through the economic role of state agencies.

One of the pillars of industrial relations reform in the neo-liberal ideological framework was the assumption of a correlation between international competitiveness and decentralised collective bargaining (ILO, 1996). This framework also associated strong trade unionism with the persistence of workplace inefficiencies. Thus labour market reforms sought to fragment and decentralise bargaining levels. In the case of New Zealand, the mechanism for achieving this

objective was the individual employment contract. In Malaysia, there was a more gradual move to transform the general unions in the late colonial era into industrial unions during the ISI phase and then to enterprise unions in the EOI phase, after 1970. Significantly, the government chose to keep unions out of the international sectors by according the 'pioneer status' to the new growth sectors. Japanese labour conventions and laws in the post-war period also encouraged the rapid dissolution of emerging general and industrial workers associations and their replacement by enterprise unions. It was clear that bargaining was restricted in Malaysia's large immigrant labour-dominated sectors and in much of the non-core employment sectors in Japan. Moreover, the shift from an industrial to enterprise based system in Malaysia between 1960s and the early 1970s coincided with the rise to power of a new political elite that was more ethno-nationalist and less committed to pluralist politics. The transition in Japan was similarly associated with the fracturing of the socialist challenge in the 1950s. Interestingly, the Fourth Labour Government in New Zealand, under whose tutelage economic restructuring commenced supported the emergence and consolidation of larger trade unions units - with a minimum legal membership requirement of 1000. This reasonably progressive trade union legislation was repealed completely only one year later with the ascendance to power of the National Government. Overall, these reflected shifts in political orientation of the government of the day.

Industrial relations policy shifts promoted decollectivised bargaining while minimising the political fallout of such a move. The latter took various forms. In New Zealand, an expansion of the field of individual rights not only through the ECA but other measures such as its Bill of Rights amplified these contradictory aims. The Japanese and Malaysian governments' promoted decollectivisation and social corporatism conjunctly, but by restricting the scope for corporatism, they aimed to confine the agenda over which labour would be consulted. These changes were not insignificant for the field of democratic politics as well. A proliferation of individual rights and carefully confined spaces for labour's incorporation had the effect of dislodging labour from spaces that it could use to articulate opposition to new developmental agendas.

Economic restructuring in each of the case studies was associated with the reform of labour laws, although the direct association between the two was not universal. In New Zealand, the infamous Employment Contracts Act was introduced by the National Government in 1988. Decollectivisation of labour affected workers ability to use the workplace as a site for collective contestation not only with reference to the more traditional trade union agendas, but also in

support of the anti-reform agitation. A similar goal was achieved in the case of Malaysia through its harsh emergency laws. Its Internal Security Act was periodically deployed during the 1980's to both subvert labour's challenges to the restructuring agendas and to demonstrate the anti-working class credentials of the Malay leadership. Moreover, the economic reform agenda was supported through non-legislative devices such as the deployment of ethnically-decisive strategies to fragment workplace opposition, splintering the national trade union centre, and promoting enterprise unionism through securing allegiances of in-house unions. Thus, "unlike the 'quasi-corporatism' of the early 1970s, official labour policy since the 1980s has deliberately undermined the already moderate and largely ineffectual trade union movement" (Jomo, K.S., 1995a: 187). In its private sector, the approach was quite different as the case of electronic workers illustrated. Unlike the private sector, electronic sector employees were able to engage the AFL-CIO in their organising dispute with limited success. Some evidence was also presented of the growing support of enterprise unions within Japan who pressured their employers to respect freedom of organising and bargaining in Malaysia. Because of the globalised nature of the manufacturing sectors, the potential for cross-national alliances was illustrated favourably even under the otherwise harsh and restrictive national regulatory framework.

In Japan significant changes in the arena of labour law were incurred during the post-war restructuring phase and it thus had a head start in the labour market reform process. Political strategies during that period aimed at promoting the workplace based worker organisations and fragmenting large industrial or general unions. In this respect, these strategies were not so different from those in Malaysia. The more salient point however, is that economic restructuring in Japan was far less sweeping than in New Zealand or Malaysia in the contemporary period. This was the outcome of the commitment to a US-led path of economic development after the War. It meant that the orientation of the economy was already more congruent with the directions implied in the neo-liberal agendas that became more fashionable in the 1980s. In spite of this broad orientation, the Japanese economy was much more situationally specific, both through the forms of segmentation that it evolved domestically, and in the arena of labour law. Even in the present contested programme of restructuring, the emphasis on labour law is less significant than elsewhere. This is mainly so because enterprise unions and productivity bargaining have characterised its industrial relations from the early 1980s onwards. Finally, labour organisation and the predominant industrial relations practices in Japan reflected limited consensus and corporatism, which served the agenda of restructuring rather well.

Overall, therefore, the legislative framework for labour regulation as part of the economic restructuring process has presented itself diversely. In each case, the diversity is explained by the differential competence of the nation state in regulating and co-ordinating the behaviour of market agents. Labour's responses to different forms of legal regulation differed, although in each case capital/state strategies dominated the shape of the reforms. If the formal regulatory regimes were so different, how is labour's weakness in preserving its gains or bargaining potential explained? For this, we need to look at how decollectivisation and fragmentation were promoted and legitimated. It is thus necessary to look at market/state relations to understand how anti-working class goals are secured by reform-oriented states. Decollectivisation of labour appeared in the first instance in the more ideological response to the challenges of promoting international competitiveness and flexibility. However, the political nature of decollectivisation was illustrated strongly in each of the countries studied.

Harvey (1989) notes that one principal task of the capitalist state is to locate power in the spaces which the bourgeoisie controls, and dis-empower those spaces which the oppositional movements have the greatest potential to command. Offe's (1996) thesis on state actions and structures of collective will formation draws further attention to the dichotomy between market based and legal based frameworks for disempowering labour, and obtaining legitimisation at the same time. Traxler (1996: 382) observes that national economic policies have not converged despite economic internationalisation, implying that industrial change entailed not only disorganisation, but also rather re-organisation of the economy. These writers point towards an association between open market policies, labour regulation and a market-based control over labour. However, the association between economic globalisation and labour regulation is implied but not substantiated. These writers help move the debate beyond the almost atheoretical presentations by the globalisation theorists examined in Chapter Two. What is common to all of them is the view that the modern capitalist state has reconfigured its role vis-à-vis the market so as to reduce the need for direct political regulation. The de-regulatory and decollectivising thrusts of labour markets reforms appeared to be necessary to maintaining a separation between the political and economic spheres.

The country studies have stressed that labour regulation changes have occurred through a mix of labour market strategies and political deregulation by these three reform-oriented states. These had the effect of severely restricting the spaces for collective action. In New Zealand, trade unions were disorganised through labour market instruments. Moreover, the shift to a

proportional representation system of parliamentary representation in 1996 fed the disaggregation of the political associations of organised labour. In Malaysia, labour was brutally contained by the colonial and early post-colonial state through coercive means. An import substitution era that followed its independence saw the proliferation of moderate industrial labour organisations whose potential for political interventions had widened by the end of the 1960s. During its NEP phase, state strategies shifted towards a mixture of political means (such as state coercion sponsorship of ethnic divisions) and labour market instruments designed to accelerate Malaysian's internationalisation. Labour movements in Japan were subject to similar state pressures in the early post-war era. However, labour's chosen strategy of building a strong enterprise industrial relations culture in selected industries helped it expand its interests largely as a consequence of the unique way in which Japan's capitalism evolved. The shift to the proportional representation system also encouraged the tendency of dispersal of organised labour's political associations more recently.<sup>7</sup> But, labour market instruments were far more effective in the non-core, small/medium enterprise sectors. Finally, the gradual emergence of one main national centre - helped further moderate labour's political agenda - mainly because of the diffused party political configurations, declining employment in state and protected sectors and expansion of relatively internationalised sectors.

Such observations do not, provide theoretical tools for studying causality. To do that, the empirical relationships between economic openness and labour regulation have to be more comprehensively studied. However, what is clear from this study, is that labour regulation was the crucial anchor to the economic reform policies. Secondly, all the case studies demonstrate the centrality of the state in regulating labour even when dealing with comprehensively deregulated settings. Thirdly, they also variously demonstrate the limited utility of the neoliberal labour market deregulation framework in disciplining labour. Finally, the study exposed a persistent reliance upon ideological, corporatist and coercive means of disciplining labour even within more democratic environments. These observations are helpful in understanding aspects of causality.

Two over-arching features across the case studies was the notable tendency of fragmenting organised labour's political associations and sharpening the divisions between competitive and protected sectors. These exemplified the political project that underwrote labour market policy transitions. While labour's fragmentation was an overtly political goal of the capitalist state and an outcome of both political and labour market strategies, they were

differentially legitimated. In the closed economy era, labour regulation depended to a larger extent upon political strategies, including coercion. In the accelerated internationalising phase, this shifted to labour market strategies. This shift, it is argued was closely associated with the patterns and pace of internationalisation of the three economies.<sup>8</sup>

By assessing these seemingly disconnected twin considerations, two contradictions in the capitalist form of production are brought to light. On the one hand, while the increasing openness has shifted the gravity for economic regulation in favour of international agencies and markets, there has been no corresponding shift in the arena of labour regulation. So while capital markets and international agents have narrowed the remit for economic regulation in the three states; they have at the same time brought into sharper relief the need for labour regulation at the national level. Secondly, the decollectivisation thrust of labour market deregulation was most apparent in the internationally trading sectors. Industries and enterprises where states or state agencies still maintained regulatory interventions were less prone to labour's decollectivisation. This development demonstrated the tendency for more free markets to support labour's fragmentation with less and less support of the state. These developments underline the two profoundly contradictory developments that have arisen out of the restructuring processes studied.

### **7:5 Conclusion**

Economic restructuring has been a constant feature of the capitalist form of production historically, as national economies needed to continuously develop strategies that favoured capital accumulation (Tilly, 1996). By comparing three cases over the chosen time period, the form of adjustment in the present period was highlighted. Modes of insertion into the global capitalist system that characterised each of the economies have been historically specific and contingent upon both external and domestic considerations.<sup>9</sup> By reducing external and historical variabilities, this chapter has explored the associations between internationalisation in the present period and labour regulation, highlighting complex inter-relationships. While it is difficult to confirm causality in such relationships, what was clear from this discussion is that states directly or indirectly promoted economic internationalisation through changes to their regulatory framework. This regulatory framework emphasised a shift towards deregulated labour markets. This shift contributed to the widening of differentials among different categories of labour and enhanced the vulnerability of labour. These factors contributed to a narrowing of the 'space for oppositional collective action' by organised labour. However, increased economic openness and

internationalisation in the present period relied upon a range of policy instruments and changes. Changes to the regimes of labour regulation were only one set of policy changes. Nevertheless, in each case economic internationalisation exposed labour to international markets. This had implications for labour organisation, labour market institutions and for industrial relations processes. During the current period, economic restructuring has been characterised by a shift of emphasis away from law and other regulatory mechanisms to market-based instruments. When we view economic internationalisation from this standpoint, the case studies provide compelling evidence that the globalisation debates overviewed in Chapters 2 and 3 were too simplistic. This turns our attention to the changing relations between state and labour organisations. A particular problem that is thrown up by these three political systems thus was the problem of legitimisation of anti-labour regimes introduced through the mixture of strategies noted.



## Chapter Seven: Endnotes

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1. On a separate theme, Tilly's thesis gains some credence from the failure at the World Trade Organisation December 1996 Singapore assembly to connect labour standards concretely with trade liberalisation for fears that it would result in labour-favouring protectionism (*AsiaWeek*, 20/12/96: 53-54).
2. This point is owed to Naoyuki Kameyama, Vice Research Director General (Research) of the Japan Institute for Labour (personal discussions).
3. On a biographical note, this study had initially sought to study the similarities and differences between the sweeping labour market reforms introduced by the post-military coups regimes in Fiji between 1987 and 1990 and the radical economic reforms introduced in New Zealand after 1990. The initial study painted an outline where political factors (such as orientation of party in government and state capacities) appeared to play an important role in the articulation and implementation of radical reforms. By recasting the study in its historical and comparative framework, both the 'political' and the 'state' have been re-emphasised so as to yield explanations for these developmental trajectories by reference to global exigencies as well.
4. Restructuring (or employment adjustment as it was then referred to) in Japan was induced by the combination of the flotation of the US dollar and the oil crisis in early 1970s. The energy crisis was less important in shifting developmental trajectories in the other two case studies. New Zealand was forced to initiate long-term adjustment in its primary sectors after the entry of Britain into the European common market, brining to a sharp end its preferential access to the British market.
5. One measure for the openness of an economy is the ratio exports+imports/GDP. Exports as a ratio of the GDP is indicative of the relative importance of the export sector. Given that Japan is a resource poor country, its import ratios are relatively higher than resource rich states such as Malaysia and New Zealand. This needs to be factored in so as to minimise the distortions that are created by the uniqueness of the case studies in a comparative study such as this.
6. Discontinuities in the industrial relations regime characterised economic restructuring in Britain as well. However, unlike New Zealand, these discontinuities rested upon a sweeping legislative agenda on part of the post-1979 Conservative Government - an agenda that is unlikely to be significantly rolled back as a consequence of change in government in 1997. In the same breath, the Fijian state responded to a situation of economic decline by launching a programme of sweeping legislative reforms between 1987 and 1991. These reforms flowed from the 'successful' experiences of the Britain and New Zealand. The neoliberal policy framework was realigned to meet the immediate political needs of a regime based upon a narrow support base. This framework is unlikely to be overhauled following an expected change in its system of government (Prasad, 1996; 1998).
7. The relationship between the proportional representation electoral systems adopted by Japan and New Zealand and the political influence of organised labour warrants

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further research. Such research will also benefit from trends noted from more than one national elections in both the countries. In both countries, trade union respondents strongly supported the move to this new electoral system.

8. A shift from a political anti-labour strategy on part of a military government in Fiji in 1987 to a more directly deregulated labour market strategy in 1989 was an important ethnographic origin for this broader comparative study. This continuum from a political, to legislative to depoliticised economic policy approach to labour regulation is well studied and documented with respect to Britain. See Bonefeld, Brown and Burnham (1995) and Grant (1993; 1996) for example. But it is less well studied in relation to economic restructuring in the Asia/Pacific region.

9. For Japan, the Meiji reformation particularly in response to the external imposition of unfair trade agreements was one historically specific mode of insertion. For both Malaysia and New Zealand, key modes of insertion were articulated during their colonial phases and retained in their early post-colonial periods. Thus both their primary export sectors were developed in relation to the British colonial economy. This political-economic context was to change substantially in the post-war period.

## **Chapter Eight: Politics of economic internationalisation and state regulation**

*State politics does not hang from the clouds; it rises from the ground, and when the ground trembles, so does it (Burawoy, 1985:139).*

### **8:0 Studying the relationships between economic internationalisation and labour**

The previous chapter examined the variety of ways in which state and labour market relations were reconfigured in the three country studies; drawing particular attention to the variability of modes of labour regulation. Building on that analysis, this chapter assesses the mechanisms through which the reformulations were legitimated and the compliance of labour sustained.

This analysis is central to explaining the variability in labour's responses to restructuring. The paradox of significant deterioration of the condition of labour in some sectors and significant gains in others illuminated the problem of legitimation. In Chapter Seven, we demonstrated the specific ways in which instruments of labour regulation were reconstructed. As a result of their unequal impact, and the ways in which they were hidden from public scrutiny, they did not always inflame organised labour's resistance. In spite of significant national differences this broadly common outcome appears as a puzzle. By shifting attention to the problem of legitimation, the thesis provides a better view of the place of politics and the role of state institutions in sustaining the labour market changes.

Economic integration and labour rights were associated in a contradictory manner (Tilly, 1996; Standing, 1997). The contradictory impact of economic growth upon employment and labour rights has been well established (Lee, 1996). Drawing on these developments, this Chapter demonstrates how the three states legitimated regulatory regime changes, especially those that were inherently designed to hollow out labour's organisational capabilities. The chapter then argues that neoliberal labour market policies were coupled with narrow corporatist gains to provide one anchor for the legitimation process. It also demonstrates the ways in which economic restructuring programmes were legitimated by aggressive policy institutions, focussing on some of the consequences of this for democratic politics. The specific agencies and means through which legitimation was obtained are spelt out in the sections that follow. The chapter concludes by affirming the key role of politics in explaining policy transformations and the links between the accelerated internationalisation of economies and state regulation of labour.

The previous chapter observed that internationalisation was associated with a parallel process that aimed to politically disorganise labour. It was also previously demonstrated that

economic integration relied upon labour market policies that strengthened wage competitiveness in the open sectors of the economy. Trade liberalisation across the case studies reinforced the centrality of wage competitiveness at industry and enterprise levels. Because most of the new employment were created in the open sectors, external relativities thus increasingly shaped the framework for collective bargaining in the most internationalised sectors. These outcomes were then transmitted to the more closed and the state sectors. In this manner the international environment influenced outcomes even in the shielded sectors where the scope for state intervention and political settlement was well established. This process was further backed by policies that protected high growth sectors from trade union organisation.

In each of the case studies, the political strength of unions rested disproportionately upon their public sector bases. The pursuit of wage competitiveness and the decline in public sector investments had significant implications for organised labour therefore. Clearly, restructuring did not translate into increased resistance by labour across all economic sectors. This was because wage competitiveness was secured via labour market mechanisms, and because wage increases and employment growth came to be more closely shaped by private, rather than public sector movements. These trends defined one of the key parameters of labour and state relations over the restructuring periods, thereby affirming one of the theoretical challenges presented by Tilly (1996) on the association between globalisation and labour rights.<sup>1</sup>

These trends merely describe changes in the labour markets. They do not explain how such fundamental shifts were generated in the first place. Cross-national comparisons thus provided greater precision in observing the generalised trends and enabled isolation of case specific causal relationships at the same time. The comparative approach provides a method for understanding the contradictory tendencies associated with accelerated internationalisation. These contradictory goals were legitimated quite differently. This approach also enabled me to view the dynamic nature of transitions in the relationships between labour and state. While the relationship between changes in industrialisation strategies and industrial relations is supported by Kuruvilla and Arudsothy (1993:38-39), it is argued that this needs to be expanded to include the whole spectrum of economic policy. This thesis also argues that dramatic shifts in economic policy orientation make it easier to focus on the impact of political factors and distributional claims upon the state and they help contextualise the longer-term historical observations. In examining the complex ways in which transformations in state and labour market relations were

embedded during a period of accelerated internationalisation, the transformative model of social agency was found to be particularly useful in outlining underlying generative mechanisms of large scale transformations (Bhaskar, 1989). By turning attention to the sphere of legitimation, it was possible to assess the fundamental 'generators' of reforms. By studying how economic policy frameworks were articulated, implemented and sustained across the case studies, a better view of the legitimation problematic was thereby obtained (Offe, 1996).

### **8:1 State transformation and internationalisation**

This section specifically discusses the means through which economic globalisation was pursued through reform within state agencies. The discussion provides pointers for a theoretical research agenda that may help explain the puzzle of legitimation and embeddedness of labour market regime changes (White, 1993). These themes are illustrated with respect to the privatisation experiences of the three economies (Jomo, 1995a; JIL, 1995; Easton, ed., 1989). I have argued that privatisation, and other reforms in the state sector are part of the process of economic internationalisation. Changes in the modes of labour regulation drive this process.

To examine how states' feature in the process during periods of accelerated economic internationalisation specifically, I return to the discussion in Chapter Seven. Economic development and thus capital accumulation depended upon constant reconfiguration of markets that not only transformed the state itself, but also social relations. Through their selection, sponsorship and re-orientation of policies around which state-market relationships were organised, I was able to study how states featured institutionally in the process of reform.

Increasing internationalisation of the economies was both a product of, and, had consequences for the internationalisation of the state itself. A shift in responsibilities for economic policy formulation and management away from the legislature generally and from departments of government collectively to the treasury and the relatively closed policy units such as the EPA and MITI, signalled the extent to which the state itself has been transformed. Economic restructuring over the past two decades thus problematised the state as both an agent of reform and the subject of reforms. In New Zealand, for example, the important policy text 'Economic Management' signalled a political determination to open this black box. The principal thrust of this text was its political calculation that the treasury and finance units, rather than the cabinet be the agency principally responsible for economic management. A similar re-thinking was observed in Malaysia particularly after 1986 when its relatively policy elite institutionalised a close relationship between industry and state officials in support of a dynamic

export -oriented regime. Similar changes have been unfolding in Japan following the 1996 general elections and the upheavals in its financial sectors.

These developments indicate an acknowledgement on part of political actors that reforms within the state were key preconditions for the economic policy reorientation. Both a 'hollowing out' of the state and a deepening of its market co-ordination role have been key characteristics of these reforms. Firstly, because agencies, such as treasuries, were most closely integrated into the international economic policy agencies, institutionally and through the regular exchanges with multilateral finance agencies, they became vital transmission belts for a global agenda of liberalisation. Secondly, the deregulation of the financial sector reduced the scope for neo-Keynesian interventions. By adhering closely to the anti-inflationary guidelines set both by national governments and internalising guidelines dictated by capital markets, select state institutions further strengthened their institutional roles. These changes enhanced the transmission belt role of the state and influenced their approach to labour market regulation.

However, the Japanese case study also illustrated the severely contested nature of this process of reform. In early 1997, for example, its finance ministry partly stalled moves to confer greater autonomy to the Reserve Bank. Such a rear-guard action by state agencies was partly influenced by the fact that Japan was the least open of the economies covered by this study. This conferred upon the Japanese political system a degree of autonomy that was not enjoyed by the other two states. Further, the relatively closed nature of its economy ensured that the disciplinary powers of international capital markets were moderated. The size of the economy also meant that its impact on the global environment was substantial (Wade, 1996).

The significance of central banks in these reforms should not be underestimated. Rueschemeyer et al (1985) criticises sociology which because of the academic division of labour, paid little attention to what is in fact a major determinant of important components of national economic well being. It should be noted that central banks in New Zealand, Japan and Malaysia were among the most internationalised of national state agencies. As a result of the flow of people between central banks and international policy agencies, they have become important conduits for policy transformations at a local level. Their actions increasingly affected organised labour and capital relations. A significant development in recent years has been the growing resistance by pressure groups, such as organised labour of the expansion of the autonomy of central banks, expressed strongly in New Zealand and Japan during the 1996 general election campaigns. In Malaysia, it was expressed less directly, through the MTUC's policy projects on

globalisation and labour (ILO, 1996). A concentration of the powers of central banks over aspects of economic policy represented one important feature of the reform of state structure. The affect of this reform upon labour regulation and the legitimisation of modes of labour regulation were clear, although trade unions and labour organisation took a while to understand the significance of this transformation.

Such reforms of state institutions give an appearance that economic internationalisation is associated with an internalisation of international economic policy guidelines promoted by multilateral agencies. So as to keep open the conduits of economic policy, this internalisation rested upon the autonomy of policy-making institutions. Thus, the centralisation of economic policy and the reification of policy units in government went hand in hand with efforts to shield them from the executive arms of government.

In one respect, the Japanese and Malaysian case studies indicated different trajectories of reform. In both these countries, an elitist-long term vision articulated by political leaders coincided with the policy reform agendas of central policy agencies. In the case of New Zealand, a national developmental policy, such as the Liberal Democratic Party's post-war goal of catching up with the West, or Malaysia's 2020, vision was lacking. A well-articulated political vision gave central policy institutions a broad remit in policy formulation. It also ensured that political agents did not need to interfere excessively with policy institutions.

A link between an elite political vision and a market based reform agenda was complemented by one other development. Economic reforms also resulted in the emergence of a strong private/public nexus in policy formation through the co-option of private sector interest groups. In New Zealand the influence of the Business Roundtable, as opposed to its employers federation, was especially noteworthy (New Zealand Business Roundtable, 1994). In Japan and Malaysia, this took the form of the co-option of private sector think tanks (Gomez, 1995). These developments had three implications. Firstly, the incorporation of private sector organisations expressed a generalised re-orientating of the economic policy formation process in all three countries. Secondly, this incorporation partly displaced employers' federations and thus relegated to a secondary position the policy influence of tripartite structures. Finally, it opened the way for the movement of people between private sector organisations such as think tanks, state institutions and international policy agencies. Each of these, in turn, had variable implications for the changing patterns of labour regulation in each country.

Chapter Seven illustrated the ways in which many public sector reforms were aimed at

the (re)-regulation of labour by the state. Public sector reforms in each of the cases were directed at opening up sectors previously closed to international competition. While both Malaysian and Japanese states sought to retain national control of key privatised sectors, the opened up sectors in the three economies were subject to greater marketisation of social relations. In each case, the transformations resulted in a clear reduction in bargaining abilities of large, industrially organised unions such as public sector unions. These unions presented one of the strongest opposition to the reform project in Japan and New Zealand. Public sector unions had been the core of the organised labour movement in each of the case studies during their interventionist/statist era (Price, 1997; Jomo and Todd, 1994). However, in the reform period these unions were subject to severe constraint. In New Zealand and Malaysia, public sector union leaders were at times humiliated by the reform process and were often tacitly reduced to bargaining for their personal job protection rather than for the collective interests of public sector workers. The reforms thus brought in a phase of recomposition of union leadership, internal union restructuring and reformulation of union strategies overall.

One of the consequences of this process of public sector restructuring was to divert union attention away from the comprehensive economy-wide restructuring programmes that were underway. During a period of strategic reorganisation, the few challenges that public sector workers launched, such as those of the airline works in Malaysia, railway employees in Japan Rail, and teachers in New Zealand, were isolated and thus more easily defeated. In none of the countries were unions legally allowed to use the strike or related industrial action to challenge changes in the economic policies. Finally, the spread of new managerialism in public sector organisations often saw the recruitment of 'high flyer policy- ideologues' into senior positions in the restructured state bodies. In Malaysia and New Zealand, private sector think tanks became recruiting grounds for such personnel.

Clearly, the outcome of such reforms and pressures reduced the capacity of trade unions to reverse the changes in the economic policy regimes. This had the further effect of enhancing the autonomy of state institutions. In this manner economic restructuring reduced the overall the validity of the distributional claims advanced by labour. This does not imply, however, that the state became any less concerned with labour regulation. In fact this distancing of the state from the labour market itself represented one type of regulation. The contestation during the reform process remained potent, though varied in form; labour/state and capital/state distributional competitions continued to shape the outcomes of restructuring, most significantly in Japan and



slightly less so in New Zealand.

The comparative-historical approach presented here contextualises the relationships between state transformations and internationalisation. Internationalisation of the state went hand in hand with greater internationalisation of capital and labour. A redefinition of the parameters of labour conflict gives tentative support to the thesis that capital/labour conflicts are increasingly being articulated in a regional/global context (Silver, 1995a; Tilly, 1996).

### **8:2 Centralisation in decentralised labour markets**

One important starting point for the analysis was the thesis that transitions of the state in the three settings supported the trend towards 'the internationalisation of the state' (Bonefeld et al. 1995). This was associated with the increasing centralisation of decision making within the nation state, which had two parallel outcomes. On the one hand, economic restructuring required policy co-ordination, which engendered a centralisation of policy making and macro-economic management. On the other, deregulation resulted in a dispersal and fragmentation of state institutions particularly in the provisions of public goods and services. Panitch (1994:70) observed the implications of such changes on power relations, noting:

rather than a loss of power, the internationalisation of the state ... reflected a shift in power inside the state, entailing a restructuring of the hierarchy of state apparatuses. In appearance there was virtually nothing to signal this change in the structure; rather the goals pursued and the uses to which the structures were put changed. Agencies with direct links to the client groups of the national economy, such as ministry's of labour and industry and institutions of tripartite corporatism that had developed in the inter-war era, remained relatively privileged and even pre-eminent. But they were subordinated to prime ministerial, and presidential offices, foreign offices, treasuries and central banks in such a way that they became instruments of policy transmitted through the world-economy linked central agencies.

This observation aptly captures the main transformations in the three cases. Firstly, there were changes in state institutions that resulted from the privatisations noted in the country chapters. Secondly, the functions and responsibilities of different state agencies were reformulated, as demonstrated in Chapter Seven. Thirdly, in spite of a general contraction of state bureaucracies, there were clear trends towards the concentration of power. Paradoxically, these developments did not draw serious objections about the anti-democratic thrusts of these policies. But this did not invalidate the scope for political challenge and contestation by labour.

Although privatisations were pushed by the external obligations under Uruguay Rounds of GATT or commitments at the regional level under APEC, they were also propelled by a

desire to centralise decision-making and concentrate regulatory powers that had previously been diffused across state agencies (World Bank, 1995b and 1996b). Significantly, while international obligations generally aimed at promoting economic openness, broadened cross-national ownership of privatised industries did not always occur. In both Malaysia and Japan, the state actively promoted policies that ensured that foreign ownership of key privatised industries were restricted, without overtly violating their international obligations (Tsuru, 1996: 206-211).<sup>2</sup> In both these situations, privatisations thus related to the political transformations within state institutions.

The political nature of privatisations in New Zealand is expressed differently. Its more direct relevance to this thesis lay in the fact that privatised enterprises created conditions where factors such as international competitiveness could more directly mould wage and employment outcomes across the economy. Privatisation programmes also forced open what were the hard to internationalise sectors of the economy. In these ways, privatisations helped sustain the tendency towards centralisation within the state because they legitimated the state's withdrawal from regulation of employment (Boston, 1995). However, it is necessary to go beyond the issue of privatisation to draw out the broader significance of transformations within state institutions. A critical dimension in explanation is the role of labour, as proponent or subject of the restructuring process. In the much less centralised union setting of Japan, a significant expansion of corporatist practices was observed. This was based on a renegotiation of neo-liberal reform packages and a high level of social consensus on employment adjustment (*Nikkei Weekly*, 2/7/97; Inagami, 1992). This derived from the fact that the Japanese state was a pervasive market agent without a large market presence. A transition from corporatism without labour to 'corporatism with labour' helped maintain this characteristic. In the case of Malaysia, the state remained a significant market player, in spite of the wave of privatisations after the mid-1980s recession. An extensive range of interventions through both centralised policy co-ordinating agencies, and the extensive powers of state governments in employment creation and public investments, characterised the state in this rapidly internationalising economy. The post-war New Zealand state was a similar pervasive market player, highly regulationist and inherently interventionist. Restructuring in its case transformed these features both radically and readily. Because the radical restructuring phase was initiated by a Labour Government, union opposition was more muted.<sup>3</sup>

It is unwise to see restructuring simply in terms of the sharp breaks in policy orientation.

Equally, it is unhelpful to view policy transformations including dramatic overhaul of state institutions as cyclical responses to 'overaccumulation' and more general economic crisis (Clarke, 1988). An historical approach provides a framework within which sharp shifts and reorientations can be better understood. With respect to the dramatic changes in the industrial relations regime in New Zealand, even the New Zealand Employers Federation study indicated that the 'Employment Contracts Act can be seen *less* as a sharp break with the past and more as a radical shifting of reformist gears. It is (only) the extent and momentum of changes that makes the 1991 legislation different from the processes of steady modification to industrial law that has been taking place since 1973' (Clark and Williams, 1995: 59). Similarly in Malaysia, strong continuities in the industrial relations framework were noted (Ayadurai, 1996). In the secondary literature it was obvious that writers were tempted to see sharp policy turns as separate from the longer term historical processes at work within national economies (Jomo, 1995b; Boston, 1995).

During their interventionist phases, the three states developed an array of instruments and machineries for the regulation of labour. These arrangements were shaped by historical exigencies such as the apparent strength of organised labour in the case of post-war New Zealand; nationalism and the co-option of labour in Malaysia; and the co-option of labour into a reconstruction ideology elaborated in Japan. But the expansive administrative and regulatory machineries were also driven by the changing requirements of capital. The shift from a protected accumulation regime to an open export oriented regime fundamentally changed the requirements of capital. While this shift had major implications for the modes of labour regulation, it was not a homogenous process. Malaysia's post 1986 reforms were still operationalised within the context of Malay dominance. Similarly, the unique role of private finance houses in Japan continues to enjoy disproportionately high levels of protection during its present phase of reforms. Such specificities showed how state institutions shaped and sustained labour market interventions. In spite of these differentiations, the role of state institutions in labour markets became less important as a consequence of the deregulatory thrusts of their labour market policies.

Malaysia illustrates well how international priorities were mediated by national interests via state agencies. The government's concern with redressing ethnic imbalances provided the pretext for a particularly harsh mode for labour regulation. Thus public sector reforms, 'rather than primarily enhancing public accountability, government transparency and other democratic

safeguards, or promoting the objectives of deficit reduction and increasing private sector control" are also subordinated to the ostensibly Malay-wealth-enhancing objectives through rent redeployment, particularly to the politically well connected. By securing a broad support base within the Malay population, the Malaysian state maintained sufficient internal strength to impose a consistent strategy of control and a high degree of ideological and pragmatic unity about why such control had priority' during a period of major transformation (Jomo, 1995b: 58). In order to sustain its control regime 'changes in the power balance in technocratic agencies were also necessary. To maintain such control, the Economic Planning Unit in the Prime Minister's Department was strengthened. In the 1980s, the Malaysian state appointed to authoritative technocratic positions, persons 'who were politically loyal and committed to the leaderships world view, rather than those who were merely technically competent' (Jesudason, 1990:77). Thus while global economic policy agendas were transmitted via 'technopols', their influence were constantly mediated by the national political objectives that were transmitted via the heads of policy institutions. These developments set the Malaysian experience apart from the two other case studies. While, the political objectives of the state were decidedly anti-trade union in orientation, this experience illustrates the continued scope for national policy interventions while promoting internationalisation strategies at the same time. Moreover, rapid growth and favourable labour market conditions such as full employment can also indirectly foster conditions that enhance the position of labour in the longer term.<sup>4</sup> Significantly, this outcome with respect to the regulation of labour was obtained in a context of extreme centralisation of political and executive authority within the state and a notable loosening of the state's direct regulation of labour markets. In contrast, the New Zealand experience was of a different order. The 1984 reform projects were articulated quite narrowly, within the finance ministries by technocrats who were shielded from political directives by its reformist Finance minister. These radical reforms, including the technocratic appointments to the economic policy institutions, were based on the commitment to the neo-liberal agenda rather than political loyalties or other considerations. The capacity of state institutions dedicated to the notion of collective responsibility and bureaucratic autonomy derived from the Westminster system of government, were soon an obstacle to wider economic restructuring. The Fourth Labour Cabinet's reforms of state businesses were slowed down 'by conflicts between bureaucrats and their ministers for control of the policy process' (Massey, 1995:134). Bureaucrats committed to economic reform, thereafter moved among key institutions, putting reforms in place and preventing bottlenecks.

A centralisation of economic policy formulation within the Cabinet Policy Committee serviced by the Treasury and the State Services Commission also ensured that the non-reform segments of the Labour Cabinet and the state bureaucracy were effectively marginalised. Moreover as the importance of monetary policy was understood, the Government moved to shield the Reserve Bank from direct political control through the Reserve Bank Act of 1989. These transformations also went hand in hand with other measures whereby union, academic and other pressure group opposition to economic restructuring were marginalised and other watchdogs neutralised (Scott, 1996; Kelsey, 1995). An array of instruments was deployed to achieve the reform objectives. This initially meant taking a high electoral risk for a Labour Government with close links with trade unions. However, the most pressing fear was the danger of a reversal of reforms through electoral swings in future. Thus rather than relying upon a nexus of bureaucrats, political and industry leaders as was the case in Malaysia, the New Zealand state elite skilfully transformed the state apparatus to ensure that their autonomy and commitment to a neoliberal framework would not be deflected by future electoral political swings. In this manner the outcomes of the reforms were quite similar in the two countries, even though the means differed quite markedly.

Transformations in the Japanese state occurred over a much longer time frame. I have already discussed the post-war transformations engineered by the occupying powers, and the post-1973 adjustments following the oil crisis. Japan as the paradigmatic strong state erected barriers to prevent external control, and created, under state direction, a concentration of powers within a cohesive capitalist class which enjoyed close links with the main post-war ruling coalition, the LDP. This characteristic of the developmental state should be seen as a variant of capitalist development in which the state secures privileged access to resources, technology and markets for its capitalists. Like Malaysia, the developmental form of the state depended upon bureaucratic agencies to manage strategic vulnerabilities, foster competitiveness selectively and sustain social harmony (Tabb, 1995:100). Even during its post-bubble crises, reforms in Japan were aimed at maintaining this balance. In Japan's case, this dilemma of maintaining a high level of state co-ordination has been far more difficult than had been the case with Malaysia or New Zealand. But like New Zealand, the reforms announced in 1997 signal a commitment to reduce the influence of domestic political levers over economic policy. This will rely fundamentally upon a reform of its economic planning/policy agencies and a further centralisation of economic policy backed by a class of technocrats committed to neo-liberalism.

While the transformations noted were not always presented in terms of economic

globalisation, this was the broad context of the national reform agenda. In the case of Malaysia, they were driven by the political objectives of the NEP including its sponsorship of a Malay elite. Economic internationalisation thus enhanced the redistributive goals of the NEP without dislodging Malay Chinese capital (Gomez and Jomo, 1997:168). However, the long-term effects of these changes were that state institutions were made subservient to the attainment of economic goals determined by the dominant fragments of political system. They ensured that state institutions gave priority to the interests of capital generally, rather than national capital within that mode of production ahead of all other distributional claims. However, in the case of Japan and Malaysia, the developmentalist state ensured that interests of capital came to be circumscribed in national and ethnic terms respectively. In this manner, the sharp differences in national specificities became less significant. These differences, it is argued were crucial to explaining the different modes of legitimation and the contrasting ways in which labour was re-positioned.

### **8:3 The socio-political context of restructuring**

The conditions under which neo-liberal type of reforms occurred in the three contrasting settings are important to establish and identify the generative factors of these processes. A banking crisis played a central role at the commencement of radical reforms in each of the case studies (Malaysia, 1986-88 and 1997; New Zealand, 1984-1990, Japan, 1973-5 and 1993-present time). Social and economic fallouts associated with this were high unemployment, declining or static investment in employment generating sectors, outflow of capital, currency devaluations among other factors. These are detailed in the country chapters. Williamson ed. (1994) argued that the prevalence of economic crisis, the political orientation of government, a fracturing of social consensus and opposition affected economy policy oscillations. These conditions were broadly visible in the case studies.

In the recent debates about economic restructuring, party political differentiation became visibly less marked in the strong and dominant two party systems in New Zealand. For quite different reasons, divisions over economic policy were less important reason for party political differentiation in Malaysia where the electoral prospects for opposition parties were far more restrictive. On the contrary, the Japanese political groupings have been sharply divided over economic policy objectives. However, the tradition of post-electoral coalition building reduced the significance of such divisions. In each of the studies therefore, the party political institutions

aided both the legitimisation and sustainability economic reforms. They also helped strengthen the grip of peak state institutions over the economic policy formation process.

Governments that attempt radical reforms obviously invite close scrutiny of their policies by their electorates. Thus, electoral calculations have become an important consideration in shaping the reform agendas. The corollary is that within the liberal democratic system, there are often strong disincentives for sweeping economic reforms. However, New Zealand demonstrated that reforms need not necessarily lead to the reversal of the electoral fortunes of the party/ies in government. Moreover, it also illustrated how interest groups could be encouraged to legitimate and sustain the reform processes. One such example quite paradoxically was New Zealand farmers associations, a group acutely affected by trade liberalisation but which most strongly rallied behind the reform processes through its support of the National Party in the 1980's (Massey, 1995:181-2).

In each case, neo-liberal programmes were levered into the centre-stage of politics by state officials. Kaufman and Haggard eds.(1992:13) observe that these officials included senior economic officials and academic economists:

(Who) were important carriers of neo-classical ideas, forming the core of transnational policy coalitions favouring liberalisation. A growing number of these 'reformist cadres' served as staff members of the World Bank, IMF, and regional development banks... These academics-cum-technocrats had a broader understanding of, if not sympathy for, orthodox policy prescriptions, as well as some comparative knowledge of the adjustment experiences of other countries. These officials were frequently thrust into positions of substantial authority, often acting as interlocutors in negotiations with the international finance institutions.

Thus, the ascendance of reform 'technopols', that is, a cadre of reformers occupying central economic policy institutions ensured that a broad committed to the economic policy reforms that flowed from the Washington consensus could be sustained (Williamson, ed. 1994). What was even more significant was the influence of such technopols within the main political parties. In New Zealand this took the form of professional/academic support for the two main parties. In both Japan and Malaysia, this type of influence was wielded by an array of 'think tanks'. Significantly, this cadre was increasingly mobile between premier policy agencies and corporate institutions (Jesudason, 1990; Bowie, 1991). At least in the case of New Zealand, this was also a cadre strongly integrated into international policy institutions (Kelsey, 1995), although, increasingly this has also been the case in Japan. As missionaries of an ideology of economic science, the role of the technopols is significant and deserves more detailed sociological inquiry. Its influence over the democratic processes should also not be

underestimated.

Economic restructuring policies that deepened trade liberalisation, reduced domestic protection, and weakened centralised regulation of labour markets were ostensibly legitimated by reference to real or perceived national economic crises. In each country studied, the 1973 oil crises became the focal point for reform agendas. Moreover, Britain's entry into the European common market affected New Zealand's primary exports, compounding the perception of an economic crisis. However, it was the recession of the last two decades that appeared more important in promoting a dramatic reorientation of economic policy. When the New Zealand economy changed from one that enjoyed near full employment throughout the post-war decades to double digit unemployment in the 1980s, the past policy approach was challenged. A speculative run on capital markets in 1984 followed a change of government, further reinforcing perceptions about the nature of New Zealand's economic crisis. The Malaysian economy also faced a similarly grave public debt and fiscal crisis by the early 1980s. The direct cost of its banking crisis was equivalent to 5 percent of its GDP during 1985 and 1988 (World Bank, 1996a:68). Similarly, the banking sector crises in the post-bubble period in Japan had equally severe political reverberations, partly given the scale of banking sector collapses. It appears to have been the case in all the three economies that financial sector crises exposed the complex inter-linkages between national financial institutions and the global political economy. This helped empower the reform-oriented bureaucrats and political elites in each country.

There are several other commonalities in the nature and impacts of the fiscal crises in these contrasting economies. For example, the national economic crises were nowhere near the scale and gravity of Mexico in the early 1980s or Indonesia in 1997. However, these crises were presented in almost equally dramatic terms. They attracted extensive media coverage as well as very public scrutinies by international agencies. Moreover, the new economic crises demonstrated the volatile nature of capital markets. Thus, it was not the economic crises in themselves that directly triggered the accelerated reform and adjustment programmes in the case studies, but the projection of a perception that only limited options were available to policy makers. Indirectly, these crises defined the options available for continued labour regulation and provided a pretext for radical labour market reforms. Significantly therefore, domestic economic crises aggravated external vulnerabilities, and restricted national policy options entered the labour regulation discourse in each of these countries in different ways.

Legitimation of reforms aimed at promoting economic globalisation also depended upon



the cultivation of a range of national fears and anxieties by the 'new economic policy agents' both domestically and internationally. Lee (1996: 486) summarised these anxieties in the following manner,

(first was the) fear in industrialised countries that globalisation is unleashing new international competition ... that they cannot withstand and which is causing rising unemployment and falling relative wages among skilled workers; in developing countries a similar fear that liberalisation will lead to job losses and rising wage inequality; the fear that globalisation of the labour market is leading to a race to the bottom with respect to wages and labour standards; and the fear that in the face of these new problems globalisation also implies a loss of national policy autonomy and (that) governments are becoming impotent.<sup>5</sup>

By cultivating such fears, state agencies helped keep popular opposition in check. They also helped promote the fragmentation of and division within labour organisations. Such dramatic perceptions were readily relayed into the political arena through national budgets and speeches by finance ministers. Their impact was felt partly through a fragmentation of large political groupings in New Zealand and Japan (Roper and Rudd eds. 1993; Makoto, 1996). In Malaysia this was less direct as ethnic divisions continued to dominate political cleavages, although underneath its ethnic cleavages were more important ideological divisions (Boulanger, 1996).

Restructuring was subject to serious contestation even within ruling coalitions. Important policy agents cultivated new ideologies whose appeal lay with a more dispersed audience, playing on populist fears. As Lee (1996:495-6) notes:

increasing globalisation, national policies are still paramount. However a basic paradox is that at the same time as the social dislocations caused by increasing international competition are rising, the capacity, and even perhaps the will, of governments to take such compensatory or ameliorative actions is weakening.

By shifting national attention away from the possibilities for politically expensive policy choices, governments effectively wiped out, or considerably shrank the space for contestation over economic policy. Thus, a broad acceptance of the neoliberal economic framework as the 'only policy option available' was one means whereby reforms were legitimated and sustained in these countries. So long as this ideology was presented in technical terms and had the backing of authoritative state institutions, contestations could be managed and the situation sustained.

Finally, it was noteworthy that national labour relations regimes were embedded in 'supportive power structures, institutional arrangements and cultural patterns' in all of the case studies (Traxler, 1996:272). When national modes of economic governance were transformed, it was likely that labour relations regimes that were premised upon it would undergo change.

From the point of view of legitimation, this posed an even more difficult situation. In relation to other interest groups, labour was the most organised and capable of mounting significant resistance to these policies. It was this potential source of opposition that was managed during the reform process. The contrasting changes and impacts upon labour, and their responses are thus examined in the section that follows.

#### **8:4 Contrasting modes of legitimation and the marginalisation of organised labour**

In the above section, it is argued that the presentation of economic crises aided the imposition of sweeping economic policy reforms. But this in itself does not explain labour's compliance and subsequent political marginalisation. To understand this, I examine how labour's marginalisation was legitimated.

The proposed internationalisation strategies were presented and justified in different terms in each country. New Zealand's sharp economic downturn in the 1980s brought into relief the problems associated with state-led and subsidised industrial development. This situation was compounded by harsh external exigencies such as the cessation of preferential market access in the UK. Competitiveness, thus was presented as the point of reference for the entire reform agenda, slowly permeating the reform discourse in the public sector. Economic reform policies were also presented in terms of the need to allay fears of international capital, given the runaway deficits, rising inflation and politically induced exchange rate variations. The alarm of international capital markets was also expressed in the form of the reduction in New Zealand's credit worthiness by key ratings agencies. In a similar manner, Japan faced a credit rating adjustment at the end of 1996. In mid 1997, currency speculation against the *ringgit* also exemplified the direct influence of international capital markets (*Financial Times*, 23/6/97). These cases exemplify one way in which the influence of international capital markets on the domestic policy regimes came to be exercised.

Nevertheless, there were compelling domestic arguments that helped win popular support, or dent opposition to the reforms in each of the states as well. In the case of Japan, internationalisation strategies were historically legitimated on the grounds of national reconstruction, catching up with the West, and more recently, in terms of reducing bureaucratic waste, corruption and graft. Malaysian internationalisation strategies were legitimated with reference to the goal of minimising inequities between ethnic groups and in terms of the broader developmental goals such as the 2020 vision. For the Malay dominated state,

internationalisation and restructuring were also presented to its constituents in terms of the potential for breaking the economic stranglehold of Malay-Chinese capital over the national economy. In each case however, the argument that internationalisation strategies were the inevitable consequences of international pressures appeared misplaced, although presented to the populous in such terms.

However, reforms aimed at economic openness needed more than an ideological umbrella or prism to rest upon. Panitch (1994:74) observed that:

the internationalisation of the state in the 1990s appears to be taking the form, in continuing absence of the ideological consensus or capacity to bring about a transnational regulation of capital markets, of formal interstate treaties designed to enforce legally upon future governments general adherence to the discipline of the capital market. This arises out of a growing fear on the part of both domestic and transnational capitalists, as the crisis continues, that ideology cannot continue to substitute for legal obligation in the internationalisation of the state.

Legal regulation was particularly compelling once decisions were taken to restructure national economies so that international capital appeared to become an important determinant of economic growth. To preserve the new policy regime, state's had to address possible pressure points and opponents of reform, such as labour, which was perceived as well-organised with strong international links.

It has been shown that economic restructuring had inherently divisive impacts. Divisions flared up within ruling coalitions over the pace and thrust of economic policy reforms. These reforms also were disputed and contested outside governments, often. It was clear, from for example interviews of national union leaders in the three countries that reform and anti-reform divisions within organised labour had developed into internal power fractions and cleavages. While such a development had an overall effect of weakening the response of unions, it also demonstrated that many union leaders had a fairly weak understanding of the full implications of neo-liberal type of economic reforms. This was understandable given that these policies were open to debate and disagreement at all levels of society. One outcome was that labour leaders were often pushed into the defence of the immediate rather than challenge unclear and nebulous state strategies.

Moreover, labour leaders were often confused by the fact that reforms enjoyed widespread public support. Broad public frustration at the quality of services provided by the bureaucratic public sector organisations was apparent in all the case studies. Such public views helped fertilise the popular support for a new economic orthodoxy as well as fragment the

solidarities between public sector unions and consumer and related civic groups. In Malaysia and Japan, this was aided by the prevalence of high profile corruption and mismanagement of public enterprises by public sector managers. In periods characterised by extremely low employment growth in the skilled sectors represented by many public enterprises, closed-shop policies held in place by strong public sector unions contributed to divisions between public sector unions and the wider public.<sup>6</sup>

Furthermore, during this period there was a reconfiguration of political elites, with Finance ministries becoming pre-eminent. In both New Zealand and Malaysia, economic restructuring coincided with the rise in the influence of finance ministers. Indeed the Fourth Labour Government Finance Minister in New Zealand overshadowed the then Prime Minister Lange in initiating the reform agenda (Boston, 1995). Even in the strong factional-driven single party dominant UMNO, the political clout of its finance minister, was noteworthy. This tendency was increasingly observable in Japan after the last general elections.

The legitimisation of anti-union labour reforms was also framed with reference to the goals of efficiency, correcting price distortions and opening up sectors to international competition (*The Nikkei Weekly*, various issues, October, 1996 to January, 1997; Clark and Williams, 1995). Such analysis and presentations 'fail to notice that a politics of deregulation, no less than one of regulation, has the character of massive state intervention'. A further 'interventionist characteristic of deregulation is that it typically relies on policy initiatives in the fields of law, culture and socialisation'. In each of the case studies, governments, policy institutions, and private individuals presented deregulation as a policy that discredited the opposing values of social justice, responsibility, and solidarity, and sought to restrict the room for manoeuvre for those who represented such values, and sought to promote policies that disorganised them. Thus the legislative and political weakening of associations and organised interests, and in particular, the denunciation of trade unions as special interest groups formed an underlying thrust of deregulation. These efforts were focussed more on ensuring that prospects for future reversals of deregulation were minimised. Paradoxically, in both Malaysia and Japan, a modest expansion of corporatist institutions complemented, rather than contradicted this tendency, reflecting a 'new constitutionalism'. This was the move towards construction of legal or constitutional devices to remove or insulate substantially the new economic institutions from popular scrutiny or democratic accountability (Tabb, 1995: 321).

Nonetheless, organised labour still retained a capacity to resist these changes. This was

demonstrated during and after the 1997 general elections in both Japan and in New Zealand. In early 1997, the new Japanese government had moderated its popular deregulation programmes in light of 'interest group' representations, factional lobbying within the legislature and resistance by important segments of the state bureaucracy (*The Economist*, 21/5/97: 38). In both New Zealand and Japan, unions nurtured new electoral alliances and sought to wield influences in a more differentiated political environment.

These fragmented union responses and the absence of coherence in their responses aided the legitimisation of the reforms. The differences between the level of union organisation appeared to have been marginal in explaining the variability in labour's responses. Their responses to the decollectivising thrusts of labour market reforms were often confused. While unions generally associated deregulation with reduced incomes, wage moderation and reduced levels of state welfare, the proponents of deregulation, on the other hand, emphasised instead the goals of efficiency, economic growth, reducing graft and promoting international competitiveness. Across the case studies, this translated into a battle for public opinion, with organised labour facing considerable constraints.

Deregulation had another side to it. Central to the deregulatory policy framework was the promotion of individual rights rather than collective ones. This aspect of deregulation policies served to dislodge unions from their social base. Civil liberty groups for example welcomed legislation, like the Bill of Rights in the case of New Zealand. Increasingly, labour related non-governmental organisations were taking over some of the more traditional social responsibilities of unions. The expansion of consumer associations in Malaysia and Japan are examples of this process in these countries.

These developments helped deflect union opposition to the deregulation policies. Moreover, the union case was further weakened by the fact that the deregulation of the state sector industries impacted upon the price of public goods from the beginning. In the case of Japan, the recent intensification of liberalisation which has threatened conventions, such as life-long employment, created only a minor dent in the electoral fortunes of the ruling LDP in the 1996 elections (*Look Japan*, February, 1997).

Central to the conundrum of organised labour's relatively timid opposition to the neo-liberal project is the changing relationships between organised and disorganised labour. By externalising developmental constraints, states and other agencies have projected economic restructuring as inevitable and externally driven. Appeals to national interests were periodically

invoked to cripple popular opposition. The restructuring led to a widening of the differentials between organised and disorganised workers, while these two broad categories of labour and their organisations having increasingly differential stakes in the internationalising economy.

Moreover, as labour market reforms expose the pre-existing industrial relations and labour regulation regimes to more market-based forces, the visible and immediate impacts of such changes are concentrated upon the organised sector. For example, national union collectivities in all cases promoted working class solidarity in the era of corporatism and state led economic growth. This often-implied high levels of high income tax regimes, narrow expansion in the full time employment sectors where union numbers were most concentrated and the marginalisation of the non-core employment sectors by established institutions. In an era of growth and employment expansion, corporatism, even of the Malaysian type, secured industrial peace.

The decline of corporatist practices grew out of the restructuring of organised state/labour relations. This affected political stability, contributing to the first post-war changes in government in Japan in 1993, a change in leadership in Malaysia in 1981 and two quick changes in government in New Zealand in 1984 and 1998. Similarly, political stability during (the post 1973 oil crisis) restructuring process in Japan was achieved by marginalising important groups of employees, and by means of 'individualisation' of the threats of unemployment.

Economic internationalisation widened the differentials between organised and disorganised labour, creating tensions with industrial relations arrangements in each economy. In particular, a largely enterprise-focussed labour relations system in Japan was under intense pressures, as unions sought ways to mitigate the impact of restructuring. Japan's ministries of Transport and International Trade and Industry, and Labour intervened to rescue an enterprise-based system in return for union support for the restructuring process. Government investments in declining industries sought to maintain employment security for the core employees around which this labour relations system was structured, further marginalising the peripheral workforce and widening the organised/disorganised cleavages.

In the case of Malaysia, these cleavages opened up somewhat differently. Malaysia's spectacular recovery following the recession of the mid-1980s created acute labour shortages. Unions in the core sectors sought to preserve their narrow gains and establish new partnerships with industry and capital. In the privatised sectors, several unions emerged better organised than before, although based on a segmented labour relations regime. In spite of a restrictive labour

relations regime overall, many unions made private deals which could only be sustained by excluding the flexible, temporary and disorganised workforce and severing links with unions and union federations that were deemed too oppositional. The peak body, the MTUC gave very little attention and support to the often-courageous efforts of mainly women workers in the electronics sector during their difficult organisation campaigns in this period. The result was a segmented labour relations regime evolved, where the majority of disorganised workers sought new alliances and mechanisms through which to advance their class interests. Such alliances included support for the ruling party and the preservation of workplace ethnic solidarity as basis for collective negotiation. As a result, many ruling Malay political leaders often-wielded indirect influence over industry in support of the claims by Malay workers in their constituencies. For the older and well-established unions, such developments only further reinforced their defensive strategies and further isolated them from the political process. Most significantly, unions failed to penetrate the high growth sectors that were more closely integrated into the global system.

In a different manner, restructuring in New Zealand exposed the hollow foundations of corporatism in a developed liberal democracy. An industrially organised union structure that had flourished in a corporatist environment had a weak workplace organisation, which left unions ill equipped to face the consequences of deregulation. Moreover, the inadequacy of workplace organisation was further exposed when the closed shop regulations were removed during the most recent restructuring phase. The CTU was thus hit from both ends. Its influence over policy at a national level was eroded, as corporatist conventions became redundant in the wake of the neoliberal reforms. At the same time, many workplace organisations almost literally fell apart when the closed shop protection was withdrawn.

These developments highlighted the limited ability on the part of unions in the three countries to pursue strategies that aimed to maintain industrial relations frameworks as political buffers. Economic restructuring represented a political project in which the restriction and curtailment of organised labour was a key objective. Only in Japan, where unions had complex alliances with government, was labour able to win concessions and hold on to the narrow gains it had made during the high growth years. Unions in Malaysia, Japan and New Zealand used instruments such as the International Labour Organisation to call international attention to the impacts upon labour of labour market reforms. But this discourse was narrowly dominated by organised segments of labour; rather than by the organisations representing all segments of labour. Thus the dislodging of organised labour through institutional transformations and the

contradictory outcomes of labour market reforms combined to create varying sets of circumstances that helped embed the reforms.

### **8:5 Shielding a new economic governance regime**

Besides the ideological drives implemented through economic policy institutions, universities, and multilateral institutions, there were other ways in which the new orthodoxies came to dominate the public sphere. One shift that was observed in all three countries was the acceptance of the broad thrusts of the neoliberal framework by the dominant party political groupings. Moreover, the differences in the economic policy orientation between large political groupings in each country had also narrowed. The example of the LDP and the JSP in Japan was one example. A policy convergence between the National Party and the Labour Party in New Zealand was evident in the 1980s. Similarly, in Malaysia the two main parties both sought to occupy popular terrain of the radical liberaliser during the last elections.

However, such convergence in itself does not shield the reforms from political contestation. While the trend of constitutionalisation against public sector economic involvement has not won much support internationally, it is necessary to look at other means through which states could avoid sharp policy reversals in future. Nagel (1994:43) points in a useful direction with respect to New Zealand, arguing that:

there are strong theoretical reasons for believing that the fate of New Zealand's new economic order will be less at risk under the MMP than it would have been under FPP. The argument is straightforward and can be put in any of several forms.<sup>7</sup> In social choice terms, a pluritarian system is less stable than systems requiring the agreement of larger coalitions. Unstable systems can bring about wide swings across the policy space, including policy reversals. Thus the retention of FPP would increase the chances that someday a new ruling coalition might develop that would reverse the free market order, just as the Labour and National coalitions of 1984 and 1990 have reversed interventionism. Conversely, a stable system by definition is more likely to preserve the status quo, or not move far from it. In other words, enacting MMP in the hope of rolling back economic reforms was worse than locking the barn door after the horse had escaped, because the lock would also prevent the beast from wandering back in.

The comparative evidence is quite compelling. New Zealand's first elections under the MMP in 1996 led to a 'hung parliament' from which an unexpected National Party and First New Zealand coalition government evolved. This led to a slight moderation of the economic liberalisation agenda. Had a coalition between First New Zealand and Labour Party been possible, it is unlikely that there would have been a dramatic change to the economic policy regime or to the labour regulations mode. In this respect, the proportional representation system



lived up to its expectations. It reduced the chance for single party government, encouraged political coalitions and reduced considerably the prospects for sharp policy swings or reversals. In this manner, the electoral transformation has served to preserve the radical transformations that have occurred in New Zealand's economy over the past decade.

Japan's first experience under a similar proportional representation system had a similar outcome in 1996. It denied the LDP a single party majority, led to a coalition government and increased the legislative representation of the minor parties. It thus provided for a similar continuity in the policy orientation of the government. In both these countries, the MMP provided electoral incentives to compete for the centre stage.

The Malaysian political system has attained a similar continuity, but by other means. Ever since the 1969 riots and disturbances, the prospects for an opposition electoral victory overall have become almost impossible (Crouch, 1996). However, what has evolved in its place is the rise of a dominant party, the UMNO which establishes coalitions between the three main ethnic constituents. Thus the search for consensus and coalition building is internalised within the dominant party. The re-entry of the breakaway Semangat-46 group into the UMNO prior to the 1996 elections completed this process. Interest-based coalitions within the UMNO became far more distinct than was the case previously. At the same time, political processes outside the Peninsular remained dominated by regional political groupings.

Thus in all the three case studies, electoral politics has been structured to provide continuity in the economic policy arena and reduce the possibilities for radical challenges by labour. Overall, therefore, economic restructuring is a process that not only involves policy shifts and re-orientation in the economic policy regime, but also involved and was dependent upon major transformations in the political arena. The embeddedness of the political transformations rested on the democratic orientation of emerging political institutions. Economic restructuring reduced the scope for corporatism, it reduced organised labour to more traditional forms of pressure group politics. At the same time, economic openness has introduced new political and social values and concerns, around consumer issues, civil rights at the workplace, equal opportunities, often ending the traditional monopoly of trade unions over these issues. These tendencies were given a boost by the MMP system of representation, which provided a wider scope for airing and pursuing issues, by single-issue pressure groups. This electoral transformation reflected a widening of the democratic space, with political opposition to the reforms becoming less acute. The net impact of these political transformations was the isolation

of organised labour, thereby shielding the new economic governance framework from sustained opposition.

#### **8:6 How much of economic internationalisation is really about labour?**

So what can be made of the complex networks of relations between economic internationalisation and labour. The neo-liberal school argues that economic globalisation is primarily driven by international capital and that over time it expands the possibilities for labour (World Bank, 1995b and 1996b). Tilly (1996) on the other hand advances the proposition that globalisation was linked to a deterioration in the position of labour. This comparative study provides some pointers for resolving this debate.

The neo-liberal market friendly approach to economic development was associated with anti-inflationary policies. Inflation had its sociological foundations in distributive conflicts, involving wage and social security between organised labour, on the one hand, and, private capital and the state, on the other. To preserve the anti-inflationary foundations of the neo-liberal economic policy framework, states sought to shield the accumulation process from distributive coalitions that could affect inflation through collective interventions.

In both Malaysia and New Zealand, a corporatist approach to labour regulation engendered strong public sector trade unionism and accommodative wage settlements in the public sector. Although labour unions enjoyed different levels of support in these countries, wage settlements in the public sector created signals for private sector settlements. In both countries divisions between the public and private sector unions were well-established features. Moreover, an informal system of wage and price indexation lay at the heart of the corporatist labour relations framework. Under these conditions, distributive conflicts translated into higher prices by creating political pressures for an accommodative monetary policy.<sup>8</sup> Given the organised interests in the public sector, price shocks emanating from the state sector were readily transmitted across the economy.

In Japan, the state sector remained the powerhouse of its large industrial unions, which enjoyed a high level of legislative representation through its sponsorship of socialist parties or individual candidates. Its state sector was open to direct political horse-trading through intricate webs of coalitions and factionalism that characterise its diet. Here, strong unions could affect prices, and public sector borrowing through a combination of collective bargaining and direct political representation. Moreover, through its unique tradition of spring offensives, public sector

pay settlements often set the benchmark for settlements in the decentralised and enterprise based private sector.<sup>9</sup> The mode of public sector labour regulation was likely to most affect inflation and when combined with the policy of seniority pay and productivity bonuses, their impacts could be debilitating.

By presenting the economic internationalisation and labour regulation paradox from this perspective, one of the underlying generative mechanisms of economic restructuring became clear. The immediate aim of decollectivisation was price stability. The fact that both Malaysia and Japan achieved price stability through political regulation in earlier post-war periods had become an unlikely option in the 1980s and 90s when the world's attention on human and civil rights were so intense and capital markets much more fearful of regulation. However, the shift to labour market strategies, did not make the reforms any less political.

But how could essentially political reforms be stably anchored without recourse to political means? The deepening internationalisation of each of these economies rested on sustaining favourable macroeconomic conditions, stable policy regimes and demonstrating the irreversibility of reforms. From these standpoints the two extremes presented above in assessing the relationships between globalisation and labour appear flawed. Rather than trying to see if there is some causality between the two, the emphasis should change to understanding why and how political strategies for capital accumulation changed and developed in specific ways. I have, thus argued that when the modes of economic governance that sustained capital accumulation were altered, labour regulation regimes changed correspondingly.

#### **8:7 The parameters for organised labours' response to state policies**

While organised labour has remained the main vehicle for collective interest articulation, albeit reduced to a narrow interest group, its primacy as a key political agent has been displaced. With the partial exception of Japan, in both Malaysia and New Zealand, organised labour has lost its political clout over the past decade. In the post-reform political sphere, organised labour was forced to compete for party political attention with a host of other civic organisations. In each case, economic restructuring also coincided with a distancing of organised labour from labour-based political groups. Only in Japan has organised labour been modestly successful in re-negotiating economic reforms, providing a few broader lessons for union regeneration.

Paradoxically, in each of these countries, economic restructuring was partly responsible for the emergence of more unified national labour associations in the form of RENGO, MTUC

and the CTU. The ending of the cold war resulted in a dilution of the ideological divisions that had characterised labour organisations internationally. This, in turn, helped to reduce some of the long existing inter-organisational conflicts between labour movements. There was, thus, a consolidation of national centres aimed at bolstering international capabilities of labour. Unions in all three countries used new found national solidarity to engage international mechanisms provided via the International Labour Organisation. However, the limited utility of international strategies in the specific cases was partly attributed to weak structures that existed at the international level.<sup>10</sup>

The strategies of organised labour appeared to be further constrained by three factors. Firstly, there was evidence that high wage and inflation strategies prompted the exercise of the disciplinary powers of capital markets in the international trading sectors. This is where employment expansion was generally the most concentrated. To understand labour's moderate strategies on the wage front during the restructuring period, it is necessary to examine wage outcomes and labours strategies in a more differentiated manner. The comparative studies drew attention to the expansion of the flexible and unorganised workforce where trade union penetration in all societies were very low and statutory protection minimal. This expansion also took a gendered and, at least in the case of New Zealand and Malaysia, an ethnic dimension as well. It is this segment that bore the brunt of economic restructuring and its implicit goals of competitiveness. While such sectors were dominated by the small-medium scale enterprises, they were generally located in the internationalised sectors. International market exigencies readily shaped prices, output, wages and other outcomes in these sectors. Denied collective interest articulation, the scope for distributional competitions by industry associations including those of labour were reduced.

The second common factor that appeared to underwrite labour's responsive capacities was derived from the expansion of the democratic process represented by broadening media freedoms, individual employment rights and reduced constraints upon oppositional politics, particularly in Malaysia. Given the expansion of the scope of individual rights, these developments also had the effect of forcing organised labour to compete with other pressure groups and coalitions for the support and attention of government, political parties and state bureaucracies. A dispersal of interest representation had the effect of moderating the distributional claims of organised labour and the internalisation of a more moderate collective bargaining outlook.

Finally, the responses of organised labour were also guided by the fact that wage claims had consequences for competitiveness in the internationalised sectors. The electoral costs for parties allied to labour to pursue such policies were increased by the sense of economic crisis and low full-time employment growth. Established political parties thus no longer had same level of the electoral compulsion to nurture the support of organised labour. Thus, a re-negotiation of the relations between organised labour and organised political collectives were also associated with the restructuring process.

Denied its traditional influence and given the failure to assert a presence in the new flexible and high growth sectors, national associations of organised labour sought new alliances with capital and state institutions. Organised labour realised how much they depended upon the support of state institutions and state-led reorganisation of market relations. Moreover, the pursuance of neo-realist collective strategies on the part of organised labour also resulted in the further marginalisation of the radical fragments of labour. The last vestiges of radical unionism in the rapidly shrinking public sector suffered as much from state opposition as from the antipathy of organised labour more generally. In countries such as New Zealand, which had been presented as a showcase of industrial democracy for much of the century, many argued that this represented one of the final legislative efforts to secure a compliant labour force.

One of the principal theses examined thus far is that the different modalities of neo-liberalism and economic restructuring have reinforced state-led efforts to re-regulate labour. Such re-regulation was primarily driven by the goal of re-establishing conditions favourable to capital accumulation. Labour market policies along with the economic policy framework reflected the continually important roles played by states even in the context of an increasingly globalised economy. This thesis contrasts with the neo-classical view, which supports causality between persistent reforms and economic internationalisation. Based on the actual outcomes in these three liberalising states, it is reasonable to argue that this central tenet of the neo-classical view is faulty by its own terms. The outcomes of the reforms further support the thesis that economic reforms were as much political projects articulated by a political class influenced by industry, as they were microeconomic policies based on the logic of growth.<sup>11</sup>

To understand the choice of state strategies during periods of accelerated internationalisation, it is important to re-examine the contingency thesis. Radical restructuring, sharp policy turns and transformations in labour regulations indicated a range of context-specific constraints upon state interventions. During real or perceived economic crisis, modes of

economic regulation and governance came under sharper scrutiny. However, even in the era of globalisation, there were no set-paths, or predetermined programmes of reforms for managers of national economies. Thus different states adopted different policies and strategies. Since labour regulation is a core element of the mode of economic governance, options available to states are contingent on labour. However, the elevation of any particular factor to a position of general 'causal priority that applies equally to all the case studies were rejected'. Hence, strategies and policies that aided internationalisation, openness and growth more generally were inevitably affected by the mode of labour regulation. As a result, the multi-causal approach that lies at the core of interpretive-historical methodology stands vindicated.

### **8:8 Conclusion**

Overall, this analysis confirms the thesis that what is presented as economic globalisation is underwritten by a new and complex re-articulation of labour markets in the three specific contexts studied here. While such re-articulations were shaped by specific historical exigencies, they brought to the forefront realignment of labour market structures with developmental goals that emphasised growth and competitiveness. This re-articulation depended upon political institutions and active intervention by state agencies. This rearticulation was quite explicit in the arena of labour regulation. The links between the modes of economic restructuring in the contemporary period and labour regulation regimes suggests a strong association between the two dimensions of social regulation.

To study labour regulation as an agent of economic restructuring and hence accelerated internationalisation, the operationalisation of the reform agendas by state institutions needs to be considered. Moreover, one needed to understand how complex interactions between these and international agencies resulted in re-negotiations of national compromises, assertion of new goals and the legitimation and sustenance of new developmental policies. In doing this, attention naturally shifted to the arena of politics, legitimation and to the state itself. It was clearly wrong to discard the state and some of its key agencies as insignificant transformative agencies.

By drawing out the importance of labour regulation in three national settings over a broadly comparable time frame, the question of constraints upon the independent operations of states in the context of a transforming international system was addressed. State capacities and policies were clearly affected by external exigencies. Economic policies were open to scrutiny by international capital markets more intensely than in the past. But these did not deflect from

the political nature of economic policy choices. By examining labour regulation, I have illustrated the central role of politics, negotiation and contestation. The most significant challenges faced by reform agencies were the legitimisation of labour market changes that visibly disorganised labour. New clusters of social relationships played important roles in this process. These new forms of clustering draws attention to the fact that theoretical discourses that depend upon conventional institutions as a basis for their analysis were glaringly inadequate. By writing in labour and state politics, an alternative conceptualisation of the general process of economic globalisation in three settings is presented. In spite of their variable methods, in each the compliance and marginalisation of labour was not neutral to the phenomena of accelerated economic internationalisation. The fact that new reform cleavages operate in territories that are less bounded does not deflect the centrality of the state, and politics in analysing the profound transformations underway.

## Endnotes: Chapter Eight

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1. (Offe, 1996:174) observed that the 'prevailing patterns of economic and industrial change generate the well-known disjunction between changes in economic output and changes in employment resulting in increased open and hidden unemployment, or labour market marginalisation of discouraged and unemployable labour'. Because this segment of the workforce is rising in New Zealand, Japan, Malaysia and indeed in many other countries in proportion to core workers, the balance of numbers shifts towards the less organised segments of labour.
2. The Malaysian state made a decisive turn against its statist policy orientation of the 1970s in 1983 through the adoption of a sweeping privatisation agenda. However, privatizations still occurred within the framework of the policy goals of the NEP and they actively favoured the politically dominant Malay's rather than capital *per se*. Tsuru (1996:211) similarly stresses the importance of 'societal objectives' in some of the key privatisations in Japan. Other writers have argued that Japan's complex financial sector regulations continue to inhibit FDI penetration into the privatising sectors (see for example, Japan Echo, May, 1997). In these ways, privatisations in both these countries have not resulted in internationalisation of ownership.
3. Roper (1996) and Scott (1996) explain the success of the radical neoliberal project in New Zealand in terms of 'bureaucratic conservatism of the NZCTU leadership' and changing 'media-government' relations respectively. Both these are useful in understanding the constraints under which union opposition to the anti-worker reforms could be understood. Both these apply to the Malaysian and Japanese case studies as well.
4. However, a neoliberal criticism of this conclusion would be that a strong and centralised orientation of the state would be necessary to mediate the demands of various interest groups caused by imposition of uneven social costs of reforms.
5. See also Boyer and Drache (eds. 1996) and Berger and Dore (eds. 1996) for assessments that highlight the continuing scope for economic intervention by national states more generally.
6. These factors were strongly affirmed by public sector union respondents in each of the case studies. To an extent the responses also signalled the inability of public sector union and government corporatist arrangements to cope with severe economic contractions. More specifically, negotiated incomes policies and employment creating public sector investments became less tenable during periods of little to nil economic growth.
7. In contrast to the previous first past the post (FPP) system and the single member constituencies, the New Zealand model of MMP sought to prevent wild swings in the economic policy regime after successive general elections.
8. For a comparative discussion of the political economy of inflation also see Goldstein



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(1995).

9. However to apportion direct causality upon public sector unionism is difficult given the lack of historical data. Moreover, even if that were available, it would be difficult to quantify the impact of political influences such as those suggested in the Japanese case study.

10. It should also be noted that international strategies are also a source of friction for national/local trade unions. For example, enterprise unions in the case of Nissan and Toyota in Japan 'were unwilling to abide by International Metalworkers Federation guidelines on international company based meetings, for fear of allowing more militant unions to attend these meetings' until 1992 (Williamson, 1994:194). For a while international obligations were also a source of deepening friction between the Malaysian Labour Organisation and the MTUC.

11. Some of the outcomes of the reforms over the period 1981-83 and 1990 to 1995 that support this include the following. Over the 1981 to 83 period, Japan was the most integrated and New Zealand the least. On a scale of 0 to 10, Japan ranked 1.41, Malaysia ranked 1.10 and New Zealand a much lower 0.34. Between this period and 1993 to 1995, the speed of integration index was -0.39 percent for Japan, -0.61 percent for New Zealand and 1.80 percent for Malaysia. Thus both Japanese and New Zealand economies were slightly less integrated than they were a decade earlier, while the Malaysian economy was more open. Contrary to our expectations, the radical liberalisation reforms of New Zealand achieved a less open economy than that of Malaysia. Even on other related indicators, this trend was persistent. Over the same period, for example, the change in the level of FDI as a share of GDP had also modestly declined by -0.016 percent in New Zealand compared with a modest expansion of 0.03 percent in Japan and 0.054 in Malaysia (World Bank, 1996: 67-70) Over the same period, changes in the contribution of manufacturing to exports ranged from 0.12 percent in Japan, 0.56 percent in New Zealand and 3.50 percent in Malaysia (World Bank, 1996b: 67).

## **Chapter Nine: Conclusion – capitalism, state regulation of labour and economic globalisation**

*Analysing structures does not limit whatever agency exists. Indeed, it is only when we have mastered the structures, yes, have reinvented the "master narratives" that are plausible, relevant, and provisionally valid, that we can begin to exercise the kind of judgement that is implied by the concept of agency. Otherwise, our so-called agency is blind, and if blind it is manipulated, if not directly then indirectly. We are watching the figures in Plato's cave, and we are thinking that we can affect them (Wallerstein, 1997: 1256).*

### **9:0 Contestation and containment**

This thesis has assessed the relationships between economic internationalisation and state strategies in the New Zealand, Japanese and Malaysian economies. A key lever in understanding the links between state strategies and the pace and direction of economic internationalisation was the choice of labour policies. By studying modes of labour regulation during the process of internationalisation of closed sectors of the three national economies, the complex relationships between labour regulation and patterns of internationalisation became clearer. Variabilities in these relationships were consequences of contestation and negotiation in the political spheres. The thesis has argued that the modes of labour regulation adopted by the three states at times seemingly contradicted the stated economic goals. These contradictions underwrote the role of the state and politics in defining and sustaining economic policy regime transformations in the modern era. Contest and negotiations made visible the variable roles played by a range of reform agents during these transformations. By thus understanding the place of politics in the selection and legitimation of particular labour market strategies, I was able to obtain a sharper understanding of the patterns and pace of economic internationalisation. But labour market strategies were only one part of a broader political process to transform the three economies.

### **9:1 Methodological and theoretical outcomes**

The validity of a multidisciplinary approach to the study of economic internationalisation and changing labour/market relations has been strongly affirmed. This approach was especially helpful in illustrating the variety of ways through which specific economic discourses acquired pre-eminence without seemingly having to depend upon the dominant institutions of power in these capitalist formations, an approach that had been affirmed by Wallerstein (1996).<sup>1</sup> This approach was informed by historical and comparative insights. These had especial utility in drawing attention to the 'particular' in large-scale transformations. The validity of historical-comparative analysis rested upon a further methodological technique. By following a historical-comparative approach it has been

possible to examine the impacts of both the general and the specific. The country studies were central to confirming the underlying generative mechanisms of large-scale social and economic transformations. These generative mechanisms flowed from the reconfigurations within state institutions, new ideological alliances between domestic and international policy-making institutions and the location of labour. This was further backed by the cultivation of some sense of real or perceived national crisis and the projection and legitimation of an economic developmental ideology by new reform agents. These occurred in a variety of ways, involving both policy and direct political instruments and agents.

Clearly, the relationships between state, economic globalisation, the role of labour regulation needs broader examination. But this thesis has established a strong association between state regulation of labour and patterns of economic internationalisation, drawing attention to a conceptual flaws in the general economic globalisation debates that have been reviewed. However, this association needs to be examined through wider cross-national observation. The case studies suggest that while economic internationalisation deepened the interconnectedness between national and the global, national particularities strongly influenced the momentum of change. Moreover, internationalisation occurred in a varied, rather than in a homogenous pattern. This variability involved differential modes of labour regulation in both the internationalised and state sectors of the three economies.

By drawing attention to the conceptual flaws of prevailing analysis, the thesis makes a modest contribution to re-conceptualising the process of economic internationalisation. I have demonstrated that the arguments advanced by the more globo-sceptics appear to be miscued. Moreover, I found the explanatory approaches developed by the hyper-globalists even more problematic. Both are unable to deal with the complex ways in which state interventions in the economic sphere have been reconfigured. Interventions were subject to political negotiations and were not merely outcomes of an economic policy framework. They depended upon reconfiguration of state/market relationships. These negotiations and transformations involved a number of agencies. The critical absence of agencies that shaped policy frameworks was an inherently problematic feature in much of the literature of economic globalisation. By tracing the underlying generative mechanisms of policy change and transformations historically, I have demonstrated the variable role played by a variety of agencies in contrasting reform-oriented settings. It is demonstrated that conventional agencies such as the state have been fractured into smaller and more powerful sub-categories with improved capabilities for initiating and sustaining large-scale economic transformations.

The observations drawn in this study compellingly show the inherently 'political' nature of economic transformations. It is also clear, nevertheless, that the role of labour as an agency within these transformations continues to pose problems as economic policy frameworks experience a new phase of overhaul (Wallerstein, 1996; Hobsbawn, 1996).<sup>2</sup> In connecting the politics and the changing modes of state regulation of labour, I have

demonstrated the complicated forms in which state/market relations were reconfigured in the three settings. Contestation, co-option and legitimisation helped throw light upon the variabilities in these reconfigurations. Contestation followed by co-option characterises the changing modes of labour regulations in Japan, more strongly than in the other two studies. Labour's subservience through ethno-political strategies deployed by the Malaysian state underwrote the labour market policy shifts over the past two decades. The New Zealand's study demonstrated how corporatism had hollowed-out organised labour; undermining its ability to interpret and respond to shifts in political power in society. However, organised labour's support for a range of measures that broadened democratic choice and accountability provided limited avenues through which to claw back some influence. In each case, it was clear that organised labour had been displaced in the political economy. Its political influence and capacity to negotiate social gains were circumscribed. At the same time, it is argued that the 'agency' nature of organised labour was transformed, nurturing new alliances both domestically as well as internationally. The ambiguities of such responses were also examined, derived from the often, contradictory ways in which labour challenged new growth ideologies, often leaving the power configuration beneath it untouched. Labour's responses to economic policy oscillations and transformations demonstrated some of inherent weaknesses in their strategies of contestation as well as the failure of corporatist politics more generally.

By highlighting the 'agency' nature of labour, this study observed a wide variety of instruments of labour regulation both within and across the studies. In each case, labour market policy shifts were backed by political strategies that were less visible. For example, the privatisation experiences were related to the political strategies of the reform-oriented states to diminish the powers of well-established public sector trade unions. Moreover, the fragmentation of labour markets and the utilisation of different strategies for different fragments of national labour markets also became important tools for labour regulation in the three settings. This was powerfully illustrated with reference to the non-core employment sectors in Japan and the foreign worker segment in Malaysia. However what was even more illuminating was the persistent engagement of an ideology of growth to re-define the place of organised labour. The combination of an ideology of growth and the de-radicalisation of labour were most powerfully demonstrated during the restructuring of industrial production in Japan in the 1950's. A similar outcome was achieved in slightly different ways in New Zealand, where the neo-liberal framework was quietly projected as the hegemonic policy discourse. However in Malaysia, the state continued to rely upon political instruments for actively disciplining labour. In spite of these variances, the manipulation of an ideology of growth by selected state institutions and agencies stand out as a defining characteristic of labour regulation in the modern era.

Derived from the neoliberal school, this ideology was applied ruthlessly to articulate and define fundamental economic transformations. In each case, the manipulation of the discourse of growth relied upon nurturing images about the national interest. The manipulation of images about the national interest was used quite effectively to reinforce the fracturing of organised labour's links with other social groups. Thus, as a consequence of the reforms over the past two decades, organised labour in all the three case studies found itself isolated within civil society, and hence more vulnerable to political efforts to erode its collective strengths. This vulnerability was more easily reproduced when organised labour's influence over the political process was reduced. On a more optimistic note, by the mid-1990s there was some evidence that national trade union centres were clawing back some of that lost influence. This was demonstrated partly through the expansion of neo-corporatism mechanisms in Japan and Malaysia and the internal restructuring of trade unions in all three cases. National trade unions centres consolidated their strengths in both New Zealand and Japan by redressing some of the historical divisions that had afflicted these movements.

But the impacts of a neo-classical and developmental ideology of growth went beyond labour markets. This is best illustrated by New Zealand where support for a neoliberal growth ideology was cultivated, and legitimated as national policy obtained in visibly undemocratic ways. This same process unfolded in slightly different ways in Malaysia and Japan, where the overwhelming dominance of single party governments and the centralisation of the policy process in select state institutions conspired to bring about broadly similar outcomes. An almost fundamentalist emphasis on monetarism, and the overwhelming anti-inflationary emphasis of neo-liberalism, worked to displace historical social settlements. The pursuance of these policies pressured social compromises. These pressures originated in very narrow elite segments of the state bureaucracy, where they were able to circumvent the political checks available in democratic and democratising societies. The ascendancy of such a policy framework dominated by treasuries and finance ministry's thus also coincided with a centralisation of authority over fundamental policy issues. This transformation, although varied in form, was generally apparent as a dominant trend over the past two decades. More than a transformation in policy, this represented a transformation in the very nature of the institutions of the capitalist state.

This study is an exploratory one, attempting to deal with a conceptual and theoretical flaw in the globalisation literature. It is argued that economic internationalisation resulted from economic restructuring that also involved major socio-political transformations. The challenge for social sciences is to provide suitable analytical frameworks to read the dialectics of these transformations given their broad and complex expressions. Some pointers for understanding the complex processes associated with economic globalisation in the contemporary period are advanced in Chapter Eight. Like Tilly (1996:4), this study cautions that economic internationalisation represents a tendency that has a 'net flow in the global

direction, but with a significant counter undercurrent'. More, cyclical fluctuations must not be confused with long-term trends and permanent transformations and that generalisation require differentiated and comprehensive measurement.

At the risk of over-generalisation, this thesis advances the claim that by shifting the generator of economic growth decisively in favour of private capital, states narrowed their ability to control and discipline capital. In the globalised environment of the 1990s, the idea that capital embedded within nation states was largely committed to expanding accumulation within the nation state waned slightly. This helped displace capital-state nexuses that had evolved during periods of state-led development. With that relationship under stress, policy attention shifted, even without the assumed overbearing influence of international agencies or international capital. In the shift to private capital-led growth, two sets of factors appeared paramount. First, the prevalence of a macroeconomic policy regime favourable to private capital accumulation and one that did not discriminate aggressively in favour of any type of capital were noteworthy. Incumbent within this was a premium on stability in the economic environment. Second, it appears that organised labour was perceived as the most potent source of risk to stability during periods of accelerated reform. Thus economic globalisation became associated with labour decollectivisation, erosion of nationally embedded labour rights, and the loosening of national bargaining coalitions. These represent the essentially political nature of economic internationalisation in the present period. To understand how and why this is so, it is necessary to reintroduce politics into discussions about what appear to be merely economic transformations.

### **9:2 The differential impacts upon and responses by labour**

The interconnectedness between modes of labour regulation and economic internationalisation drew attention to the wide differences in the responses by labour, and the impacts of economic policy changes. For example, in New Zealand, organised labour was decollectivised and fragmented into smaller units on the backs of new legislation. In Malaysia, on the other hand, there was little change in the size and composition of the organised workforce in the public sector, except that the corporatised sectors set up enterprise-based labour units. In Japan, labour's decollectivisation and restructuring occurred over a much longer period. Thus as economic processes were embedded in social structures, so were labour relations. Some forms of labour relations survived economic restructuring due to their embeddedness in supportive or contingent power structures, rigid institutional arrangements and cultural patterns, even when those forms collided with the economic policy orientations of government. Structural adaptations may mirror external exigencies, but they do not solely determine them. To accept the former would be to accept that validity of the thesis that national agencies and structures were merely repositories of global trends and outcomes of global pressures. None of the case studies lent support to this thesis. Change in

the labour regulation regimes closely followed the 'trajectories determined by their particular mode of embeddedness' (Traxler, 1996: 272-273). This mode was shaped by political considerations, and reflected the balance of organisational strengths of labour, capital and state collectivities and conflicts at the commencement and at specific points over the reform process. Historical elaboration helped tease out the combinations that yielded specific outcomes. A comparative inquiry helped throw up combinations that were more generally prevalent across the region and possibly more globally as well. However, it was clear that many of the general tendencies were historically contingent upon the contest by labour and the reflected the outcomes of such contest.

### **9.3 Sociological analysis of large-scale economic transformations**

The sociological analysis of economic transformations presented in this thesis has emphasised the variety of ways in which economic policy frameworks were depoliticised and hence removed from the sphere of contest. Labour's narrow and issue-by-issue responses in each of the case studies exemplified this process of depoliticisation. Unless, the essentially undemocratic nature of policy formation is challenged by labour primarily through political action, it is unlikely that it will be able to claw back the social gains that have been wiped out over the past two decades. In the absence of political action, it is likely that labour will continue to find itself on the margins of the political process where it is forced to compete with the increasing numbers of civil society groups for political leverage over the policy discourse. Labour's marginalisation exemplifies the essentially political outcomes of the deregulatory thrusts of labour market policies.

But these have resulted in a reconfiguration of the national political terrain as well, which now incorporates the international environment. During periods of economic crisis, the impacts of international agencies on domestic policy do become significant. Often, such pressures merely complement the policy approach desired by bureaucrats. Such pressures have helped to constrain the influence of the executive arms of government over economic policy as well. Clearly, international agencies have been able to shape national policies and their influences upon labour market policies have been shown to be especially significant.

Economic internationalisation resulted in the differential integration of national and regional labour markets into a more global economic system. The imperatives of international competition and declining levels of state support acted to promote labour market policies that favoured further integration. Thus the Employment Contracts Act of New Zealand demonstrated how labour policies became fundamental to New Zealand's chosen mode of economic internationalisation. Social contracts were not renegotiated, but simply pushed aside by a zealous reform orientated state. In Japan, however, the social bargains that lay at the core of its complex production structure were reconfigured in a more nuanced way. But, by late 1997, it had become clear that even the reconfigured bargains had

become politically unsustainable. The Malaysian case study was more complicated. A combination of authoritarian measures and deregulated labour market strategies were managed skilfully by a 'developmental' state bureaucracy. This endangered some social bargains that were rooted in its complex ethno-political structures and enabled the state to sustain its high level of co-ordination during the boom years, although the state was much more vulnerable when Malaysian markets confronted a severe loss of confidence by international capital markets.

Overall, the three country studies have demonstrated the differential approaches taken by three reform-oriented states to labour regulation. But they have also shown how these approaches have been constrained and affected by the process of economic internationalisation in turn. These were most sharply expressed during periods when the three states experienced accelerated internationalisation. A policy commitment to internationalisation allowed some agencies to play a powerful role in the reform process. However, the state remained central to explaining how such agencies were able to affect national labour markets and labour market policies. Historically, the persistent trade deficits in the relatively closed environment in New Zealand and Malaysia had forced an excessive level of dependence by the state upon national industries. These industries were often predicated upon social bargains reflected in favourable labour management regimes. Moreover, the states subsequent commitment to internationalisation was also aimed at reducing the dependence of the state upon national enterprises. This resulted in renegotiations of both the regulatory frameworks and the social bargains. In each instance, the renegotiations of historical bargains and settlements affected worker associations adversely and aided the opening of national economies.

Economic internationalisation was predicated upon a reformulation of the labour relations regime. Trade unions were not merely impacted upon; they were often active agents of change. In New Zealand's case, the initial complicity of labour to the economic reform agenda heralded by the Fourth Labour Government made them vulnerable to the neo-liberal labour market reforms that followed. Certainly by 1998, when the Employment Contracts Act was proposed, organised labour could no longer muster strong opposition to the political imperatives of the reform project. In Japan, the 'moderate fragment' of unions that came to dominate the scene after the 1950s invested heavily in employment security. Malaysia's post-reform growth came from the new manufacturing enterprises, many on greenfield sites, which were largely union-free zones. A reform-orientated state, committed to promoting Malay equity in commerce helped sustain this union-free environment. Either through complicity or by default, trade unions affected the economic policy orientation of the three states - and as such they aided the chosen modes of economic internationalisation. In the longer term, this was to weaken labour's political potential overall.



Organised labour's responses to state developmental strategies were complicated and at times contradictory. Throughout the post-independence period, the Malaysian state committed itself most forcefully to direct regulation and political control. However, extreme authoritarianism gave way to labour market based instruments of regulation in the 1980's. Moreover, the subversion of organised labour to the political imperatives of an ethnically structured political system ensured that labour's political capacities remained weak. In New Zealand, a range of factors reduced organised labour's capacity to confront the anti-working class thrusts of the post 1984 developmental policies. Organised labour ended up with a political base which restrained it to pressure-group type of politics. A political response to the new developmental thrusts was most noteworthy in Japan. Labour increased its direct representation at the executive level and was able to use this to preserve some of the gains secured during the high growth decades. However, here as in the other case studies, these were extremely constrained political responses. Economic internationalisation thus appeared to have hurt the political capacities of labour in each of the case studies.

By attaching such importance to the state regulation of labour, this thesis has attempted to lay the foundation for recognising political agencies as a crucial element in major economic transformations. Although the regulation of labour was presented as part of economic policy programme of reforms, they were clearly political processes as well. In each case, accelerated economic internationalisation sharply transformed the political environment. A reconfiguration of the 'political' appeared as a general feature of economic restructuring. In this manner, it is argued that accelerated internationalisation of the three economies was predicated upon the political rather than economic policy changes *per se*.

Overall, therefore, this thesis has introduced labour regulation as a variable that helps us understand more sharply the patterns and trends of economic internationalisation in these Asian/Pacific economies. This variable was operationalised through changing economic policy instruments. These were demonstrated by the different ways in which the three states responded to domestic exigencies and international pressures during a specific period. The three reform oriented states were both affected by and affected the terrain on which accelerated internationalisation occurred. An understanding of the role of state agencies helped us assess how different strategies for labour regulation were deployed and sustained, especially during periods of accelerated internationalisation. The intense economic crises that confronted two of these case studies at the end of 1997 further affirmed this approach.

#### **9:4 Postscript: politics and endgame**

By the end of 1997, both Japan and Malaysia had entered into a new economic crisis – which was clearly induced by a combination of national and global factors that were far more serious than the hubble and 1986 crises respectively. I have argued that state responses to crisis of accumulation has historically involved a reorientation and often an overhaul of the

mode of labour regulation, backed by other changes in the economic policy framework. In both these countries, however, labour markets were already fairly deregulated, unions considerably weakened and the social compromises of a previous era already hollowed-out. It is unclear how much further a mode of regulation that seeks to coerce even greater concessions from labour in the name of an almost 'ethereal' national interest can progress. Arguably, further reforms are likely to open new fault lines in labour and state conflicts, which may offer modest prospects for optimism for labour after some two decades of retreat.

State policy responses in both these societies in early 1998 to this economic crisis; have clearly re-affirmed the central tenets of this thesis. The immediate response by the two governments' to these crises took the form of changes in the regulatory frameworks for the financial sector – the least open of the major economic sectors. Their economic policy responses appeared to lead to the further concentration of the powers of premier policy units within the state bureaucracy. As a consequence, the treasuries in both countries increased their influence over some of the main aspects of labour policy. Moreover, economic policy responses that favoured greater internationalisation were presented in even more 'depoliticised ways'.

Clearly, the unfolding responses in both these countries appear to reinforce the central tenets of this thesis. Economic internationalisation transforms, but does not displace the role of states in economic management. Moreover, economic restructuring as a consequence of economic crisis is most often associated with the implementation of policies that directly or indirectly affect the leverage and influence of organised labour. I therefore conclude that a renegotiation of labour policy and further changes in state's approach to labour regulation are likely to form a part of policy re-orientation in both these countries. As with the previous crisis in both these countries, the cultivation of appeals about the national interest is likely to be associated with these transformations. Such appeals have historically helped isolate and mollify labour.

Overall, these recent crisis demonstrate that in spite of the overbearing prominence of the 'footloose' global capital markets, the central organising role of the states within specific sites of accumulation are even more powerfully affirmed following such a major crisis. Economic internationalisation as represented by the increasing assertiveness of capital markets consolidates, rather than hollows-out the state's remit in the arena of labour regulation and economic policy. How labour responds to these anticipated transformations will affect not only its continued political leverage, but also shape the nature of social democracy that economic globalisation induces.

## Endnotes

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1 Foucault had similarly argued that 'knowledge could constitute a system of control in the production of discourse, fixing its limits through the action'. The ascendance of a neo-classical developmental ideology appears to affirm that observation. See Foucault, M. (1972:224). The Archaeology of Knowledge and the Discourse on Language. New York: Pantheon.

2 See also for example, Sholte, J. (1997), "Global capitalism and the state", in International Affairs. 73(3) and Evans, P. (1997), "The Eclipse Of the State: Reflections on Stateness in an Era of Globalisation", in World Politics. 50(October).

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